How to Start a Nonprofit Organization

Successful leaders have learned not to undertake major projects, like starting a nonprofit, on their own. They have learned to trust the expertise and commitments of others, to share responsibilities. If you have already resolved that you alone are going to do all of the tasks necessary to start the nonprofit, then you probably have some important lessons to learn in leadership. If the nonprofit is to be successful, it will need more than one person – one "hero" – who does everything. Now is the time to start recruiting and accepting help to start the nonprofit. Use a team of people to do the tasks suggested in this section of the guide. These steps are depicted in Table I:5 at the end of this section.

What is the Purpose, or Mission, of the Nonprofit?

Now that you have a basic understanding of nonprofit organizations, you can get started in starting one. Begin by really clarifying what the purpose of the nonprofit is – what its mission is. The mission is all about meeting a need in the community – it is the most important reference point for Board members when doing their jobs. For now, when starting your nonprofit, write an initial, basic mission statement.

At this point, the mission statement needs to be generally descriptive. Note that later on, during strategic planning, the mission statement should be refined so that all key stakeholders have input to, and complete understanding of, the mission.

More information about strategic planning is included in this guide **Error! Bookmark not defined.**.

The following guidelines may be helpful to your team when writing the first, basic mission statement.

1. **The mission statement describes the overall purpose of the organization.**
   It addresses the question "Why does the organization exist?" If it is primarily to meet a public need in your community, then starting a nonprofit is indeed a good idea.

2. **The statement can be in a wide variety of formats and lengths**.
   It can range from a few sentences to a few pages. At this stage in the development of the nonprofit, it might be best to keep your mission statement to at most about a quarter page.

3. **Write a brief mission statement.**
   Consider at least these specific aspects of the mission:

   a. The primary benefits and services to clients – the difference in the community that the nonprofit aims to make.

   b. The groups of clients who will benefit from those services.

   c. The values that will guide how the nonprofit will operate.

d. How you would like others to view the nonprofit.

4. **It is often useful to refine the first, basic mission statement.**
Add or delete a sentence or a word from the mission statement until your team feels that the wording accurately describes the purpose of the new nonprofit organization. If you have any people in mind to serve as your initial group of Board members, then have them review the wording of the mission statement. (Usually, your first group of Board members was listed as officers when you filed your Articles of Incorporation – more about Articles later on in this guide.)

Are You Sure Potential Clients Really Need Your Services?

This may sound like a trite question. However, often someone feels that a particular group of clients has a strong, unmet need – only to find out later, after a lot of struggle to get a nonprofit started, that the clients really did not have that need at all.

If no other nonprofit has been started yet to serve what you think are the unmet needs of your client groups, then that might be a very good reason to start a nonprofit – or it might be good reason to believe that the needs among clients truly do not exist at all.

Clients will come to a program based on what they want. They will stay based on what they need. Therefore, do some upfront homework to learn about your clients. That is the purpose of basic market research. It is beyond the scope of this book to fully guide you through careful market research. For now, make some calls to leaders in each of the groups of clients that you intend to serve. Share your ideas for a new nonprofit. Get their opinions.

Consider the guidebook, *Field Guide to Nonprofit Program Design, Marketing and Evaluation,* from Authenticity Consulting, LLC. Go to the “publications” link at http://www.authenticityconsulting.com .

Are Current Nonprofits Already Addressing the Public Need?

It is not uncommon for people who want to start a nonprofit to also want to be the founder of “their own nonprofit.” However, if you are starting a nonprofit to meet a need that is already being addressed by other existing organizations, then do not ignore those organizations. If you do, then you will end up competing with them for clients and funds. You and your clients will be much better off if you at least make an initial effort to contact local nonprofits with similar missions to see how you might collaborate with them. So when doing your basic market research, find out if there are other nonprofits doing what you intend to do.

To begin identifying nonprofits in your area, contact the National Council of Nonprofit Associations at http://www.ncna.org/ .
In Canada, it might be helpful to contact your local chapter of the United Way of Canada, available from http://www.unitedway.ca .

Consider Fiscal Sponsorship to Jump Start Nonprofit?

You might not have to do all of the necessary paperwork now (such as filing Articles of Incorporation, starting a bank account, getting sales permits, etc.) if you get a fiscal sponsor. In the case of a fiscal sponsor, your new “program” essentially can operate as a program of another sponsoring nonprofit corporation.

In effect, a fiscal sponsor shares its tax-exempt and tax-deductible status with the program that it sponsors. The nature of the program’s services should be somewhat in accordance with the nature of the sponsoring organization’s mission. The sponsor might also assist in financial management for your organization.

A fiscal sponsor might be useful to your team if your organization or program:

- Does not have sufficient resources to handle startup costs and filing fees as a nonprofit corporation. (These costs can range from $500 to $5,000, especially depending on legal costs to complete the necessary forms for tax-exemption and charitable status, for example, the Form 1023 in the USA.)

- Does not have sufficient skills to plan, organize and begin managing a new organization.

In the USA, the sponsoring organization becomes responsible to the Internal Revenue Service and any funders of the program, especially regarding how the program collects and spends its money. In return, the sponsor gets a fee, often a percentage (usually from 5%-15%) of the revenues associated with the sponsored activities.

For more information about fiscal sponsorship, go to http://www.managementhelp.org/finance/np_fnce/np_fnce.htm#anchor1824012 .

What Help Might You Need?

Lawyer?

You can do much of the work yourself to incorporate (for example, completing Articles of Incorporation). Applying for tax-exempt and/or tax-deductible status is more complicated, and your team would benefit from the advice of a lawyer who understands nonprofit matters (for example, knows how to complete Form 1023 in the USA). It is very important that your filing for tax-exempt and/or charitable status be very accurate about the purpose and program of the new organization. Otherwise, the new organization might not get special tax status at all, or it might get only tax-exempt status and not charitable status. To get references for a good lawyer, ask nonprofits in your area, or call the local bar association. You might be able to find very low-cost legal fees from a Legal Aid chapter in your area, or from pro bono services of law firms in your area.

Accountant?

It is as likely that you will need an accountant as a lawyer. You can struggle through much of the legal filings and forms. However, if you do not have at least a basic understanding of bookkeeping and accounting, then you should get some help. Ideally, you can recruit a volunteer who has financial management skills, and even becomes your Board Treasurer.

Call the local volunteer organization to see if they can recommend someone. Call several local corporations to see if they have a volunteer center to help their employees find useful volunteer positions in the community. Look through the Yellow Pages to find accountant organizations.

Consider the book, *Bookkeeping Basics: What Every Nonprofit Bookkeeper Needs to Know* (Amherst H. Wilder Foundation, 2003). Click on “Publications” at http://www.authenticityconsulting.com .

Free Online Resources

Fortunately, there is a vast amount of resources available for nonprofit Board and staff members working to start a nonprofit.

In the USA, the Internal Revenue Service in the USA has an extensive amount of information at http://www.irs.gov/charities/topic/index.html . In Canada, the Canada Revenue Agency has extensive information at http://www.cra-arc.gc.ca/tax/charities/menu-e.html .

Appendix B **Error! Bookmark not defined.** lists many of these resources. The Nonprofit Free Micro-eMBA^{SM} in that Appendix includes 13 on-line, self-directed training modules for the learner to progress through the initial stages of starting a nonprofit to go on to govern and manage the nonprofit.

Although they are not free, the CharityChannel discussion forums about nonprofit matters are a great source of low-cost information. At the time of this writing, the yearly fee is $37 to join one or more of the forums. Go to http://www.charitychannel.com .

What Should You Name the Nonprofit?

This requires some careful thought on the part of your team now. Consider the following:

- The name should designate what services will be provided and to whom.
- Do not pick a name that is very similar to other organizations in your area.
- Remember you can change the name later on if you want to do so.
- Pick several names and then discuss them with your Board members and several potential clients of your organization.

Recruit Your Initial Board Members ("First Board")

You will need at least a small number of Board members to help you start the new nonprofit. Sometimes this is your "first Board" of Board members because, as the organization grows, you might end up doubling or tripling the size of your Board, depending on your needs. There are different bases for staffing a Board, but for now you probably want to use a functional basis, which is recruiting Board members because of their unique expertise. For your first Board, select members who: 1) are very interested in the mission of your new nonprofit; 2) can provide the time and energy to help you start the organization, maybe 5-8 hours per month; and 3) have useful expertise, for example, in planning, Boards, finances and perhaps fundraising. Do not select Board members because they have passion only – that usually only results in passionate meetings.

Do not waste your time trying to recruit "big name" Board members, under the illusion that they will attract huge donations – that is rarely the result. Ideally, the first members of your Board have been on Boards before, have strong understanding of the needs of your clients, and how those needs could be met. Ideally, too, they are independent Board members, that is, members who are not on the staff (if the new nonprofit has staff members yet), will have no business affiliation with the new nonprofit, and are not very close and personal friends of the founder, especially of a CEO or Board Chair.

For additional information about recruiting and training Board members, see Part III, especially the sections "How to Staff and Fully Equip Your Board" **Error! Bookmark not defined.** and "How to Ensure a High-Quality Board" **Error! Bookmark not defined.**.

Hire Chief Executive Officer (Executive Director) Yet?

It is very common that the person who starts a nonprofit goes on to become the first Chief Executive. Not all nonprofits have a Chief Executive. The Board may decide that it wants to continue completely as a volunteer organization, with members of the Board providing the day-to-day completion of tasks. If that is the case with the new nonprofit, then the Board members must decide how they will provide the ongoing leadership and energy to really do that. This type of Board is often considered to be a "working" or "Administrative" Board. If the culture of the people on your team is highly egalitarian and participative – you all want to be viewed as equals – then you might be using a Board model that is referred to as a "collective" Board.

If Board members are considering whether to hire a Chief Executive, then the guidelines in PART IV of this guide will be useful.

See "How to Hire Your Chief Executive Officer" **Error! Bookmark not defined.**.

Draft Your Articles of Incorporation and Initial By Laws

Articles of Incorporation

If you have decided to create (or "charter") a formal nonprofit organization, or corporation, then you will need to file the documents with the appropriate local government agency. For example, in the

USA, you will probably need to file Articles of Incorporation with the Secretary of State’s office in your state.

As mentioned previously in this guide, in Canada you can form a nonprofit corporation either at the provincial or federal levels. You might also be able to form under a variety of regulations, for example, a provincial Societies Act or Companies Act, or the federal Canada Corporations Act. In Canada, it is necessary to be incorporated in order to become a charity. It might be much quicker if you file in your province. You should contact officials in your province to identify the most suitable means to charter the nonprofit corporation.

There is more about Articles of Incorporation, including about its typical contents, **Error! Bookmark not defined.**.

By Laws

By Laws are the Board’s internal specifications regarding how the organization will be configured and managed, and how the Board will operate. Consequently, it is one of the most important Board policies and usually the Board adopts it first. In the USA and Canada, some states or provinces require By Laws in order to file for incorporation.

Read more about By Laws, including typical contents, **Error! Bookmark not defined.**.

Conduct Basic Strategic Planning for Now

At this point, it is appropriate for your team to conduct some very simple strategic planning to produce a basic strategic plan document. The plan will likely prove useful to provide initial direction to Board members and key staff when applying for any start-up funding, and for recruiting new Board members. The plan should be updated by conducting more complete strategic planning later on, probably in three to six months. This round of planning will likely be short-term and primarily internally focused. The next round of planning will include much strategic thinking and analyses, especially with stakeholders input. For now, the plan need not be very comprehensive and detailed, for example, it might be three to five pages in length.

1. On the first page, write down the 5- to 8-sentence mission statement that you crafted earlier.

2. Then list 5-8 goals that must be achieved over the next year in order to get the nonprofit started. For example, goals might include getting and developing Board members, getting facilities, getting and developing staff to provide services, advertising to groups of clients, serving clients and doing fundraising.

3. For each goal, write down 4-5 objectives, or smaller goals, that must be accomplished in order to achieve the overall goal.

4. For each objective, write down what resources might be needed, who will achieve the objective and by when. Do not worry that this information has to be accurate throughout. You can change it later as needed.

5. Finally, estimate how much money will be needed to obtain and support the resources to achieve the objectives over the next 12 months.

6. Put that information in a document and refer to it as a basic “Strategic Plan.”

For more information about strategic planning, see the section “Strategic Planning: Direction for Nonprofit and Your Board” **Error! Bookmark not defined.**.

Conduct Your Initial Board Meeting to Do Approvals

In the Board’s first, official meeting, members should at least:

1. Review and approve the draft of the mission statement.

2. Review and approve Articles of Incorporation.

3. Review and approve the By Laws.

4. Review and approve the initial Strategic Plan document.

5. Select Board officers (President or Chair, Vice Chair, Secretary and Treasurer).

Do All Necessary Filings

If you have not yet done so, you will probably need to attend to the following activities, depending on the requirements of your state, or provincial, and federal government agencies.

1. **Get the necessary government identification numbers.**
   In the USA, file to get an employer identification number (EIN). You will need this number to file for tax exemption from the IRS. Go to http://www.irs.ustreas.gov/ and search for “Form SS-4”. In Canada, when you file to be a charity, you will get a “charitable taxation number” from the Canada Revenue Agency that you will need in order to administrate tax receipts activity with the government.

2. **File for incorporation.**
   (See the upcoming section, “Your Board’s Most Important Documents,” **Error! Bookmark not defined.**.)

3. **After you get designation that the nonprofit is a corporation, file for tax-exemption?**
   The nature of this filing depends on the requirements of the government agency in your state or province, and at the federal level. For example, in the USA, you will file Form 1023 to the Internal Revenue Service (this is true at the time of this writing). You might need your Articles of Incorporation, employer identification number and a strategic plan. You might need your By Laws, as well. Ask the IRS to return a determination of your tax status and provide you a “determination letter.” It might take up to six months to get this letter. During this period, you can conduct operations including solicitations from funders. Tell other organizations that you have filed for exemption. When you get your letter of

determination from the IRS, keep this form! You will need it to show funders that you are tax-exempt and/or tax-deductible.

4. **Once you get tax exemption, file for any state, province and property tax exemptions.** The nature of this filing depends on the requirements of the government agency in your state or province and at the federal level.

5. **Get a bulk mail permit.** This will come in handy when you do bulk mailings to clients, funders, etc. Contact your local post office to see if the nonprofit qualifies for this permit or other discounts.

Table I:5 – Checklist for Starting a New Nonprofit

	Activity	Comment
1.	Draft initial mission statement	Draft a brief mission statement that describes the purpose of the new organization; your Board should approve it in their first official Board meeting.
2.	Recruit initial Board members	If you plan to incorporate, recruit at least enough Board members to meet state/province/federal requirements for a corporate Board; if you do not plan to incorporate, consider an informal Advisory Board to help guide you.
3.	Get a lawyer	Lawyer can help file Articles (if you plan to incorporate) or you can do them yourself. Apply for tax-exemption (if you plan to seek exemption from certain taxes in USA). You can probably do the Articles yourself, but it is helpful to get a lawyer to file for tax status.
4.	Get banker and bank account	Get a bank account; seek a bank that understands the needs of new, small nonprofits. Get a reference from a similar nonprofit.
5.	Get accountant	Get an accountant or other finance expert to help you set up a basic bookkeeping system for the nonprofit corporation. When you get a Board Treasurer, he/she can be very helpful in this regard.
6.	Get insurance agent	You may need liability insurance, property insurance, and other insurance when you hire staff, including Worker's Compensation, health and life insurance benefits, etc. Get a reference from a similar nonprofit.
7.	Draft Articles and get Board approval	You will need to draft these only if you plan to file for incorporation with your state/province/federal level; the Board should approve the Articles before submission; the boilerplate / framework for the Articles is usually provided by the government agency where you file.
8.	Draft By Laws and get Board approval	Some states/provinces/federal levels require these; the Board should approve the By Laws. Get samples from a similar nonprofit.
9.	File incorporation with state	Submit your final, approved Articles; you may need to submit By Laws, too, depending on your state/provincial/federal requirements.
10.	Get government identification number	For example, in the USA, get a federal employer identification number. Do this once you start to hire employees in order to withhold income and FICA. Go to http://www.irs.ustreas.gov/ and search for "Form SS-4".
11.	Conduct basic strategic planning	Sketch out your mission statement, 5-8 goals that need to be achieved over the next year, 4-5 objectives to achieve each goal, resources needed for each method, and resulting budget of monies needed to achieve and support those resources.

12.	File for tax-exemption	After you get your corporate status, apply for tax-exempt status depending on state/province/federal requirements.
13.	Get local tax exemption	After you get your corporate status, apply for tax-exempt status depending on local agency requirements.
14.	Get solicitation license	If you plan to solicit funds, you might need a solicitation license.
15.	Get mail permit	If available, this permit gives you a discount on bulk mailings

For more information about starting a nonprofit in the USA, go to http://www.managementhelp.org/strt_org/strt_np/strt_np.htm .
In Canada, go to http://www.charityvillage.com/guides/guide4.asp .