STARTING a NONPROFIT IN WASHINGTON STATE

What you need to **KNOW**

What you need to **DECIDE**

What you need to **DO**

Office of the Secretary of State

WASHINGTON NONPROFITS

Wayfind™

501 COMMONS

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Introduction

You and others in your community see a problem that needs to be solved or an opportunity to make things better. You've been helping your community and see opportunities to do more. It will require funding to take your work to the next level. You know it will be a lot of work, but you courageously step forward to make a difference.

You are in good company. There are 1.5 million nonprofit organizations in the U.S. Washington typically sees 4,000 new nonprofits formed each year. With all of these nonprofits already in existence—and so many struggling to stay in existence — it is important to consider if creating a new organization is the best route to having the impact you want.

The "Starting a Nonprofit" Toolkit invites you and your group to think about the difference you seek to make and the structure best suited to move forward. It leads you through key decision-making steps on whether a nonprofit is the best way for you to accomplish your goals. If you decide to move forward with a nonprofit, "Starting a Nonprofit" guides you through the key compliance and good-practice steps to take it towards becoming operational.

You may be feeling impatient to get started. Yet to be successful, it's critical to pause, reflect, imagine, convene interested people in your community, and plan around important questions that will ultimately strengthen the organization's ability to succeed.

This Toolkit represents a distillation of knowledge, experience, and research from nonprofit leaders, founders, and organizations that serve the nonprofit sector. "Starting a Nonprofit" brings you from idea to organization. It is the first stop on a journey that will lead you to many other resources. It is also a companion toolkit to resources on nonprofit boards, finance, law, and planning that are available in the Washington Nonprofit Handbook, at wanonprofitinstitute.org, and in 501 Commons resources. It is supported by in-person workshops, webinars, networks, and many other chances to learn more.

THE FINE PRINT

This Toolkit includes high-level information about starting a nonprofit. It refers to other resources that go into more depth. It is designed for general use and not for the specific characteristics of an individual organization or person. It contains information about the laws impacting nonprofit organizations in Washington State. Legal information is not the same as legal advice. It is always a good idea to consult with an attorney to get advice as to how the law should be interpreted related to the specifics of your organization and situation. Also, laws impacting nonprofit organizations change over time. The information contained in this Toolkit may become out of date.

Let's go!

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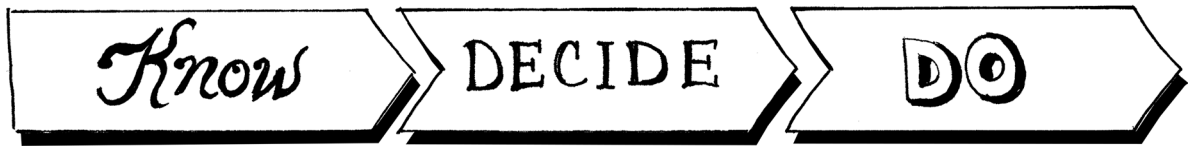

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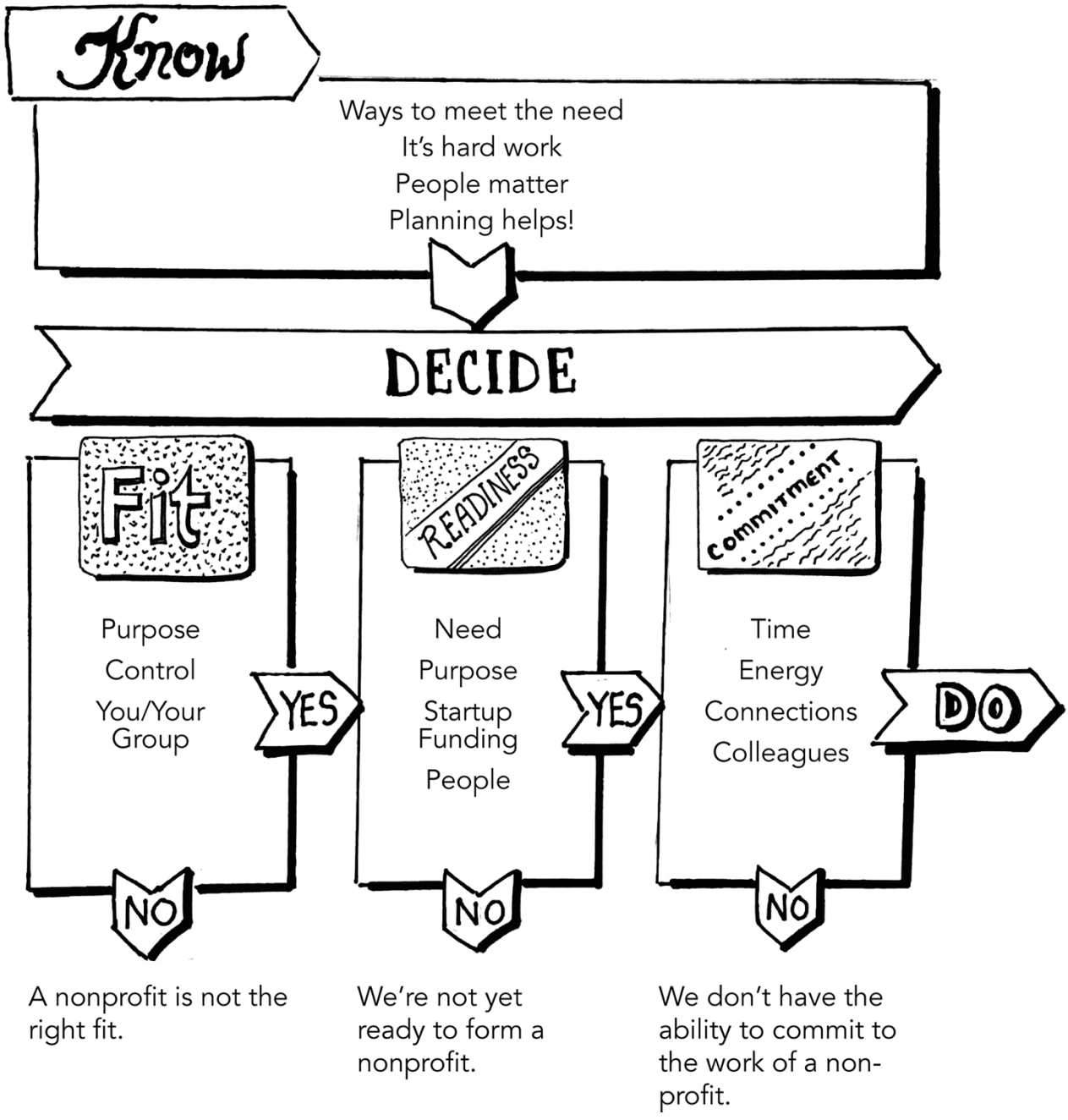

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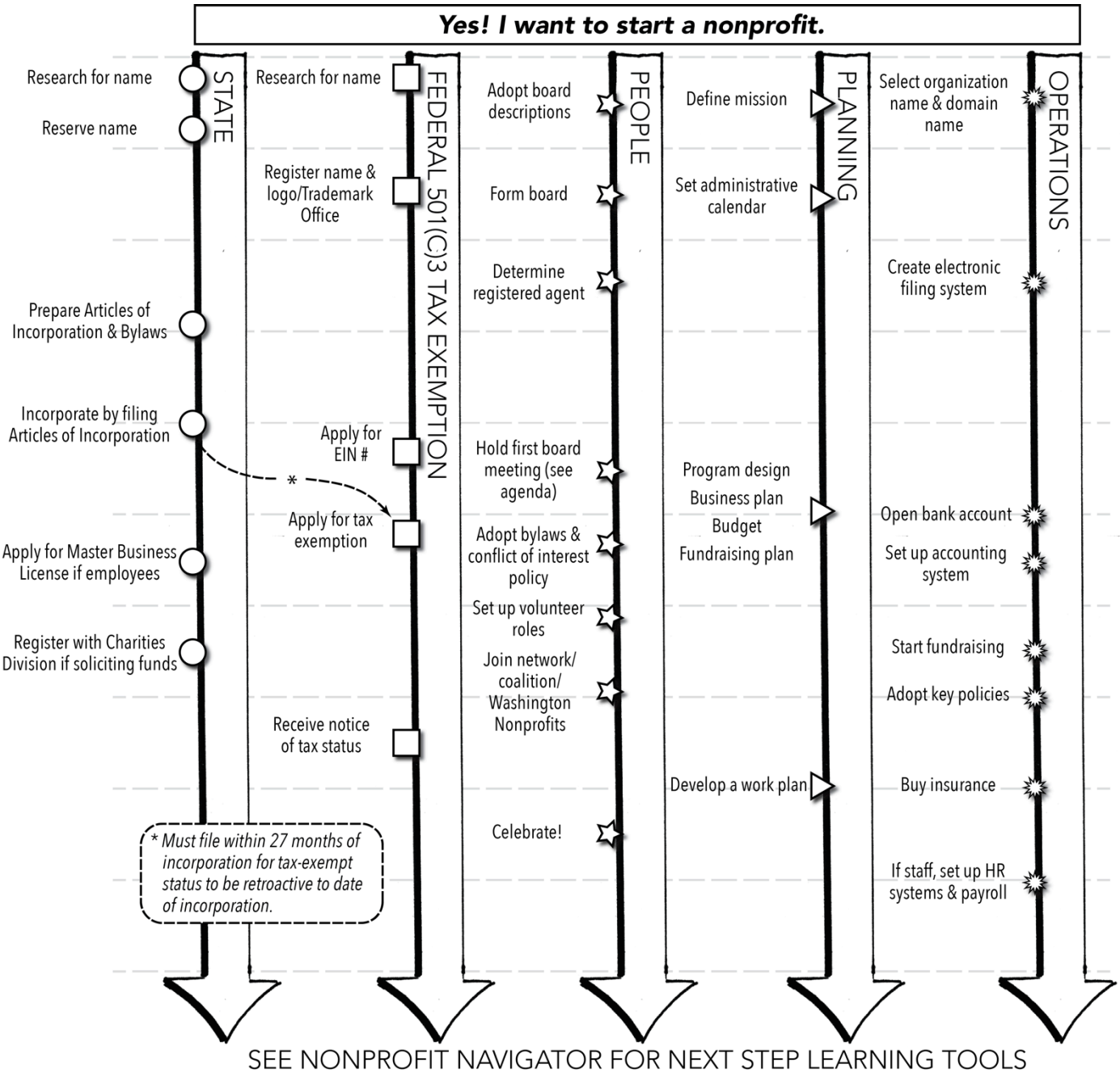

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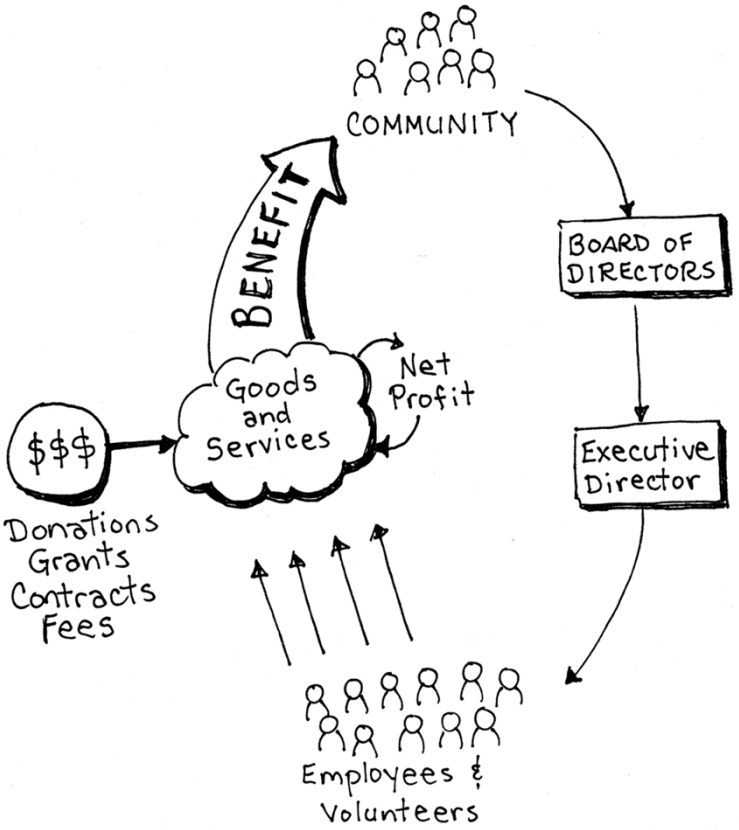
What Is a Nonprofit?

A **nonprofit** is a type of **corporation** that is created to accomplish a public benefit. It does not have owners other than the community at large. It has no shareholders. It cannot be set up for the purpose of generating an income or profit for the organizers. Some organizations apply for **tax-exempt status** from the Internal Revenue Service (IRS) so that donations can be tax-deductible to the donor and the organization can avoid federal corporate income tax. There are many classifications of tax-exempt organizations, one of which is 501(c)(3). (See Resources, page 31, for a link to the other types of organizations, as classified by the IRS.)

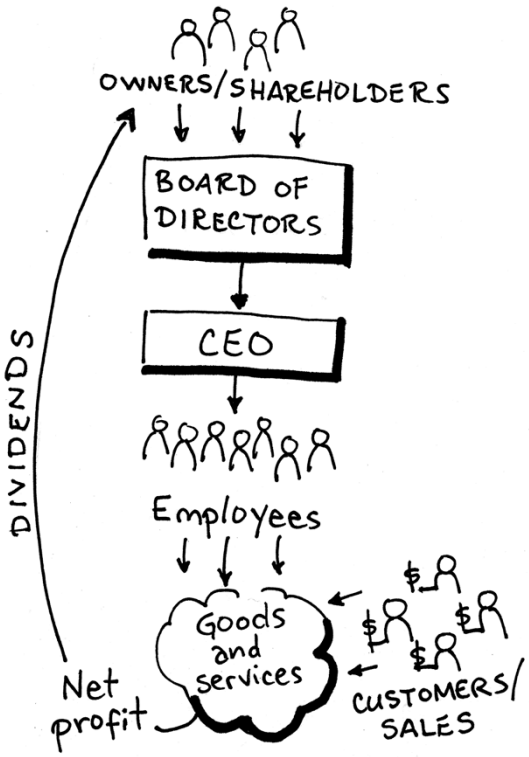
There are important differences between a nonprofit and a for-profit organization. The main differences are:

Owners: A nonprofit does not have an owner. It belongs to the community.
Profits: A nonprofit does not share out profits. Any money left over at the end of the year goes back into furthering the mission of the organization.
Volunteers: Most nonprofits have volunteers. A for-profit does not have volunteers.

NONPROFIT CORPORATION



FOR-PROFIT CORPORATION



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Part 1: What You Need to Know

Do you want to start a nonprofit? Before you do, there are five big ideas to know.

1. **A nonprofit is *one way* among many to meet a need.**
2. **Running a nonprofit is hard work.**
3. **Community really matters in starting a nonprofit.**
4. **Planning is a key element in starting a nonprofit – and in improving your odds for success.**
5. **If control is important to you, consider a format other than a nonprofit.**

The following sections explore these ideas one-by-one:

1. A nonprofit is *one way* among many to meet a community need.

It may not be necessary to start a new nonprofit to make a difference. Here are some other options:

Join an existing effort: Maybe there is a good nonprofit near you with a similar mission. Volunteer with them, join their board, or apply to work as a staff member.

Form a chapter: Is there a national or regional nonprofit working on the problem your group wants to address? Talk with them about starting a local chapter.

Find a fiscal sponsor: Find a local organization with an aligned mission and operate under their tax-exempt status. See the Resource section (page 31) for information on getting help to craft the agreement.

Stay unincorporated: If you are not raising money from the public, employing staff, or engaging in activities that involve risk or liabilities, you may not need to become a nonprofit corporation or tax-exempt organization. Being active as a group of community members may give you more time to focus on your cause than you would have if you add the responsibilities of running an organization.

Be a for-profit business: Many for-profit businesses have a strong commitment to their community. By operating in a socially responsible way and/or providing in-kind donations and services to nonprofits, for-profit businesses can make a tremendous difference in communities.

Form a Social Purpose Corporation: Your idea may be a business with a strong social conscience. A *Social Purpose Corporation* is a for-profit company with a social purpose. Washington State law has a specific corporate statute that creates a *Social Purpose Corporation*. One can be certified by the nonprofit *B Lab* if it meets rigorous standards. See the Resource section (page 31) for more information.

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2. Running a nonprofit is hard work.

You create a nonprofit to do the work you love or want to see happen. Then you spend a whole lot of time in meetings about governing, raising money, and managing operations, not doing the work itself. This is one of the less-visible realities of running a nonprofit organization.

Nonprofit work, particularly at the beginning, is made up of these main activities:

Compliance tasks: Jump ahead to page 20 to see the various state and federal compliance-related tasks that every nonprofit needs to complete. Some of these are one-time filings. Others are annual filings or licenses. These take time, organization, money, and possibly some finance or legal advice from experts.

Meetings: A nonprofit is governed by a board of directors drawn from and representative of a larger community of people who care about the mission of the organization. That means meetings: Board meetings, community meetings, committee meetings, volunteer meetings, and other gatherings that bring ideas together and move planning forward.

Fundraising: For the first year or two, assume that your community – family, friends, and close community partners – will be financing the work of the organization. Most nonprofit money comes from individuals, not grants or sponsorships. New organizations are often sustained by a few individuals while the board builds a larger community of people who care and establishes the track record required to apply for grants or contracts that will generate revenue.

Providing the programs or services of the organization is work that happens on top of this on-going administrative and fundraising work.

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3. Community really matters in starting a nonprofit.

Most nonprofit work comes down to relationships, both within the organization and between the organization and its larger community.

It is common that people wear multiple hats in starting a new nonprofit. It is helpful when they these different hats and communicate clearly which hat they are wearing in each situation.

Community: A nonprofit exists to benefit the community. This means that it is vital to have strong relationships with key community members. This includes the people who care most about the mission, people you serve, other nonprofits working in this space, business leaders, elected officials, donors, potential donors, service clubs, and many others.

Board: The board is the backbone of the organization, particularly as it is getting started. They are courageously stepping forward to put their names, time, and energy towards a cause that matters to them. A board that works as a team in a trustful way is a powerful asset to a new nonprofit. Key decisions will be made by this group, not by a single person.

Volunteers: A nonprofit meeting a real community need will attract people who care and want to help. These people matter greatly in your success because they will do the work in the short term while you build up funds to hire staff (if that is the direction you and the board choose).

Community really matters, which is why starting with good habits and a positive culture is so important. There are suggestions throughout this toolkit on ways to build community, a strong organizational culture, and good habits to benefit the work that you are doing.

4. Planning is a key element in starting a nonprofit – and in strengthening your potential for success.

Before you set out on a journey, it is helpful to know where you are going. There are two plans to consider at different stages:

Organizing Plan: Before you decide to form a nonprofit, write down information about your idea and how you plan to implement it. Share this with others who care about your issue or have experience with nonprofit management and fundraising.

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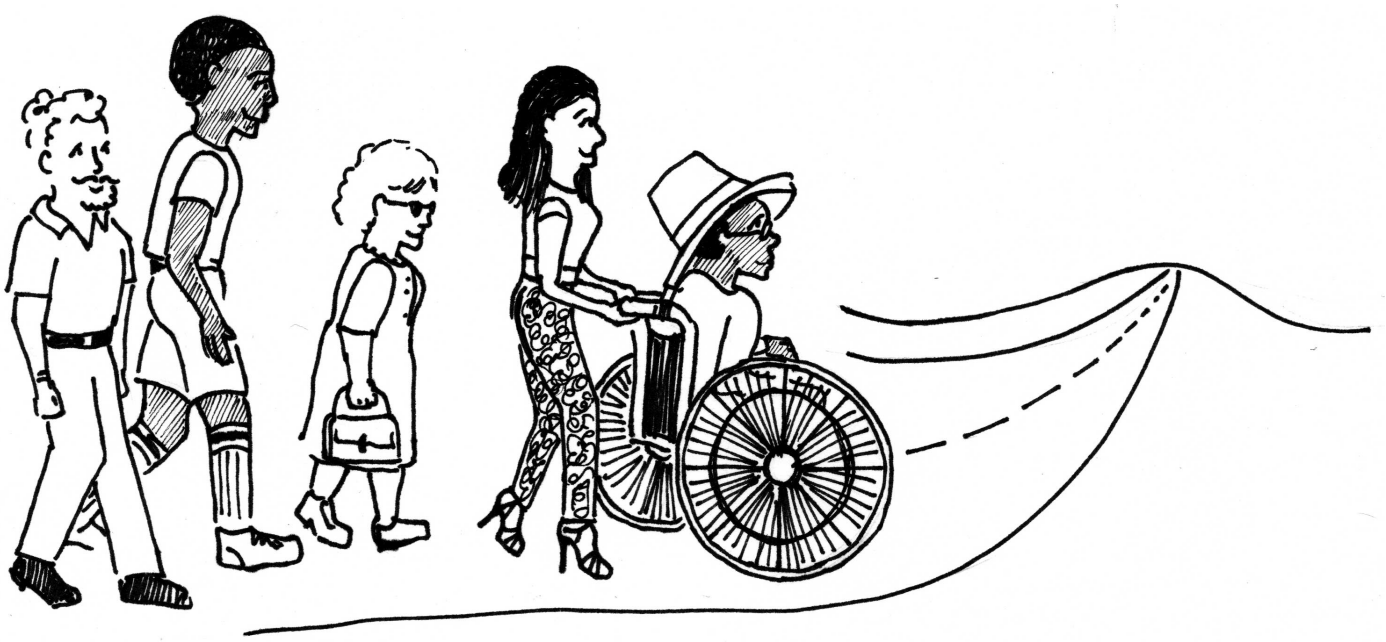
Business plan: Before you begin to raise money you will need a document that explains your goals and how you plan to achieve them. This plan lays out who the organization will serve, how the organization will serve the community, how you and your colleagues will run the organization, and how it will be funded. A business plan is a great tool to develop answers to the IRS application for tax-exempt status. A *Business Plan Template* is included on page 37.

5. If control is important to you, consider a format other than a nonprofit.

There is nothing wrong with wanting control of how an organization operates. A nonprofit corporation is not the right form, however, if you want to maintain control over how the work gets done. On page 15, you'll find suggestions for other ways to accomplish your goal while retaining control.



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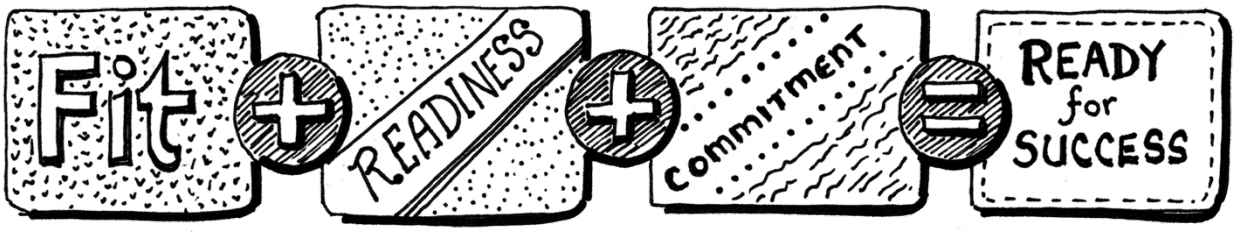
Part 2: Get Ready to Decide

Once you know more about setting up and running a nonprofit, you are ready to decide whether to start a nonprofit organization. There are three main stages of decision-making:

Fit: A nonprofit is one way to make a difference. There are many other options that may be a better fit for what you are trying to achieve.

Readiness: Once you decide that a nonprofit is the right fit, spend some time doing research and thinking about whether you and your community are ready for a new nonprofit.

Commitment: Ready, set…. do we really want to go? Before you set out on this journey, take one more pause to decide that you are ready to step into the leadership role that starting a nonprofit entails.



Here is more information about these three main stages:

1. Fit

While many people think "nonprofit" means helping others, in reality there are many ways to make a difference. It is helpful to ask yourself these questions:

- What is your purpose? What problem are you trying to solve? Who will benefit from your work?
- How will you solve the problem? Do you have a new or unique approach that will be more effective?
- How much time and money is your group willing to give to start the organization and sustain it?
- What organizations are working in this area, and what are they doing?
- How much control do you want or need to do this work? With a nonprofit, you give up control in two ways: 1) Board of Directors – a group of people call the shots, not one or two individuals or

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founders; and 2) The nonprofit is for the public good and cannot benefit any individual people or be controlled for the benefit of any individual people.

Other considerations include:

- **Do you have to become an IRS tax-exempt organization?** No. If you are not soliciting donations from the public, grants from foundations or companies, or government contracts you may not need the benefits provided by becoming a 501(c)(3). See "To 501c or Not to 501c" on page 23 for more information.
- **What type of tax-exempt organization fits your purpose?** 501(c)(3) is one category of tax-exempt status. Others include 501(c)(4) social welfare organizations, which advocate for causes and spend money on changing policies and public perceptions and 501(c)(6) Chambers of Commerce organizations. There are also special rules for religious organizations. You might want to review this IRS list of the types of tax-exempt organizations with an attorney to make sure you are aiming for the correct category. Check under Resources (page 31) for information about finding an attorney that specializes in nonprofits.

Consider it a sign of success if you decide not to start a nonprofit because you can legally accomplish your goals without becoming a nonprofit. The energy you would have put towards starting and maintaining the nonprofit can now go into accomplishing your goals to benefit your community.

2. Readiness

If a nonprofit corporation is the best way to address your issue or opportunity, you'll enter a second decision-making phase to determine if your community is ready to start a new nonprofit. The main areas to explore are:

- **Need**: Is there a real and demonstrated need? Is that need unmet by others?
- **Purpose**: What specifically will happen as a result of the work of your nonprofit? What activities or services will create those results?
- **Funding**: How will you get the money you need to start and sustain the organization? Is there start-up money available to your group?
- **People**: Do you have the right people with the right skills ready to commit their time and money to starting and maintaining a nonprofit?

If it turns out that you are not ready to start a nonprofit, you may want to lay out a timetable and work plan to reconsider in the future. Great things take time.

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Heart Check

You want to address a community problem but may feel the process of starting and maintaining a nonprofit is daunting. This dilemma may stir up a lot of emotions in your group. It is important to know what each person in your group is feeling and understand how that is impacting your decision-making process. Take time to talk about how you are feeling with family, friends, and your fellow organizers or board members.

3. Commitment

The last step in decision-making is to think again about whether you and your fellow organizers are ready for the work of starting a nonprofit.

- **Time**: Are you ready and able to devote the time now and into the future?
- **Energy**: Do you have the energy to put towards starting this organization?
- **Connections**: Do you have community support? Are you willing to draw on your relationship with family and friends to grow and sustain the organization, at least in the short term?
- **Community**: Do you trust your fellow board members and community partners in this effort?

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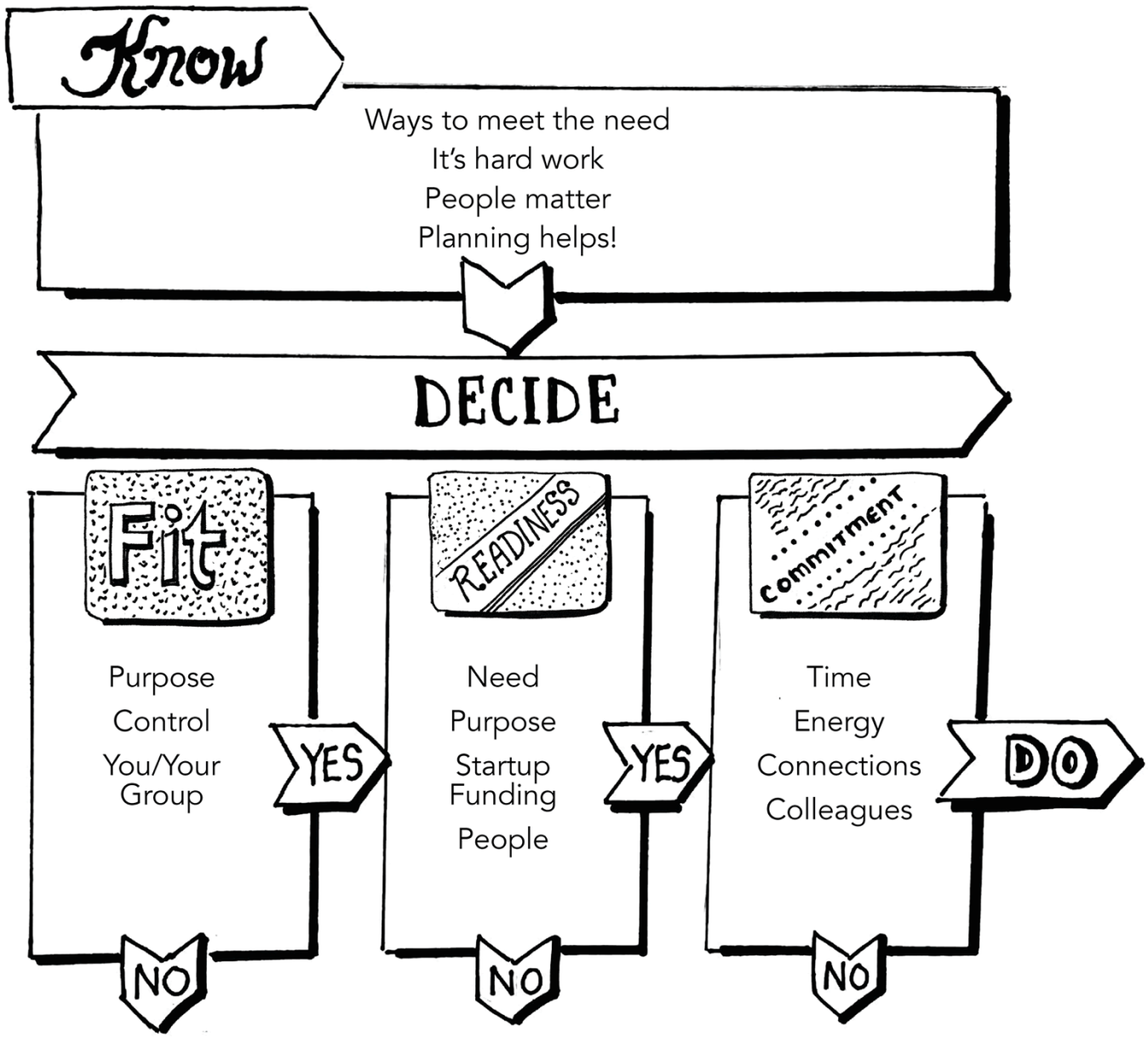
Decision Map



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Decision-Making: Fit

Is a nonprofit the right way for you to make a difference?

		Alternatives	Why?
PURPOSE	**You want to earn a profit while doing this work.**	For-profit Social Purpose Corporation	*There is nothing wrong with the goal of earning a profit! A nonprofit, however, is created without a profit motive. Any funds left at the end of the year have to be reinvested and cannot go to individuals.*
PURPOSE	**You want to fund yourself to work on this cause or offer your services at a reduced cost to people in need.**	Partner with an existing organization Work for a nonprofit	*You may think that grant funds are easy to get. They are not! Chances are high that you will not see grant funds for a long time, if ever.*
PURPOSE	**You want to address a short-term need or help a very specific population. This is a one-time event.**	Partner Fiscal sponsorship	*Working with an established organization can be fast and efficient.*
CONTROL	**You want to make key decisions. You want control over the work. You need to sell the entity when you're done.**	For-profit Social Purpose Corporation	*A nonprofit organization is governed by a board. No one individual has control. It's subject to reporting and disclosure requirements, in some cases beyond those of for-profit enterprises.*
YOU	**You just want to help.**	Volunteer for an existing nonprofit Serve on a board	*There are many ways to help within existing organizations.*
YOU	**You have limited time.**	Volunteer for an existing nonprofit	*Nonprofit work takes a lot a time.*
YOU	**You have specialized knowledge or skills.**	Volunteer for an existing nonprofit Advocate on behalf of the cause Do public speaking Teach Serve on a board	*There are many ways to use your knowledge and skills effectively.*

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If you got to this point, the following should be true:

- Your purpose is to serve the public on an issue over time, not something quickly solved. You don't intend to make money, be subsidized for your existing work, or give money to specific individuals.
- You have no intention of holding control over the organization. You understand that a nonprofit is governed by a board of directors that ensures that the organization benefits the community.
- There is a group of people who are involved. You and your organizing partners have the time, energy, and commitment to do the work of this organization and provide funding to it for some time to come.

You have completed the first step towards deciding if a nonprofit is the right fit.

Now move on to Decision-Making: *Readiness*.

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Decision-Making: Readiness

Is your community ready for a new nonprofit?

Starting a nonprofit involves a lot of research and community-building. These questions can be used to guide conversations with your fellow board members and organizers in order to decide whether or not to start a nonprofit. Later, you'll use these answers to develop your Organizing Plan.

Does the activity you want to do qualify as a nonprofit?	**Yes / No** If no, you can stop here. If you don't know, contact Wayfind for guidance.
NEED	
What is the need that you want to address?	
What demonstrates that need?	
What other organizations are working on this need?	
What is different about your approach?	
How might you partner with an existing organization?	
PURPOSE*	
What is your mission?	
What does success look like?	
What activities will allow you to achieve success?	
FUNDING	
What individuals, groups, governmental organizations or companies will commit resources to your organization? Make a list of them.	
Who else will commit resources (foundations, government agencies, businesses, etc.)?	
What can you do to generate revenue?	
How do you know? What commitments have they made?	

* The IRS provides definitions of tax-exempt purposes, such as "public benefit" and "charitable." See page 26 for key links.

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COMMUNITY	
Have you spoken to community members about your idea? Is there community support?	
Have you established relationships with other community members interested in your purpose?	
Have any other community members or partners committed to partnering with you on this work?	
Who will serve on your founding board? (You should have at least 3 unrelated people.)	
What skills do you and your supporters have to contribute to the organization?	
What skills will you need from outside your organization?	

You might look ahead to the Business Plan (page 38) to see how you can add information to this.

At this point, you know:

- **Need**: There is a demonstrated unmet need.
- **Results**: Your group has defined the specific results you want to achieve and for whom.
- **Funding**: Your group knows that you need to identify funding to sustain your work and have start-up funding.
- **People**: Your group has the right people with the right skills ready to commit to the hard work of starting and maintaining a nonprofit.

You have completed the second step towards deciding if a nonprofit is the right fit.

Now move on to Decision-Making: *Heart Check* to develop a deeper sense of the emotions that are motivating you.

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Heart Check

How are you feeling?

Before moving on to "Commitment," check in on how you are feeling. Starting a nonprofit is an emotional time for many. The emotion around your work is important because it is your heart connection to the cause that will sustain you through the hard work ahead. In general, emotions are what motivate us to do things. Understanding your emotions will help you to honor them as you move forward.

Here are some typical emotions related to starting a nonprofit:

Anger (that the community needs exist)
Anticipation
Confusion
Curiosity
Doubt (can I do it?)
Enthusiasm
Excitement
Fear
Hope
Impatience
Invincibility
Outrage
Passion
Satisfaction
Self-confidence
Worry

1. Circle the emotions that you feel most right now.
2. Invite your fellow organizers to identify what they are feeling right now.
3. Talk about the emotions you are feeling.

Reflection

- Write down some ideas about how you can continue to channel your emotions in a positive way.
- Sometimes emotions keep us from seeing the bigger picture. What is the negative side or drawback of the emotions you are feeling? How might it be holding you back?

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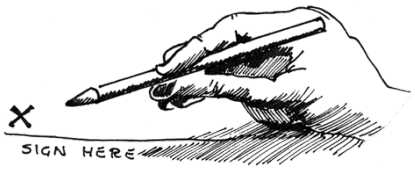


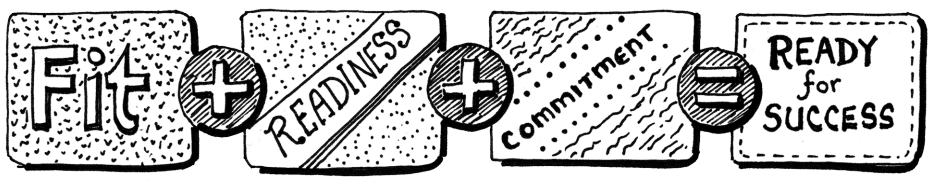
Decision-Making: Commitment

Are you and your community committed to the long-term work of a new nonprofit?

	Yes	No
I am ready to invest significant amounts of time, energy, and connections into the success of this organization.		
I understand that a nonprofit is a corporation with a structure much like a business.		
I know that the work of a nonprofit goes on for a while. I am ready to support this work for a few years at least.		
I understand that I will not have control over the organization. It is not about me or benefiting my interests, but about serving others.		
I have done considerable research to know about other organizations doing this work and believe that we are complementary to existing efforts.		
I understand that nonprofits are mostly funded by individual donors, and that my family and friends will most likely need to fund this organization, at least in the short term.		
I am part of a group of people (at least 3) ready to serve on the board. They are unrelated and bring different skills.		
I know that there is broader community support for this nonprofit and its mission.		
I am excited about the difference we will be able to make together.		

If you and other key members of your organizing group answer "Yes" to all of these questions, you are ready to start a nonprofit. If you have any concerns as you answer these questions, stop and talk about them.

Congratulations!
You have made it through the 3 stages of decision-making in "Starting a Nonprofit."



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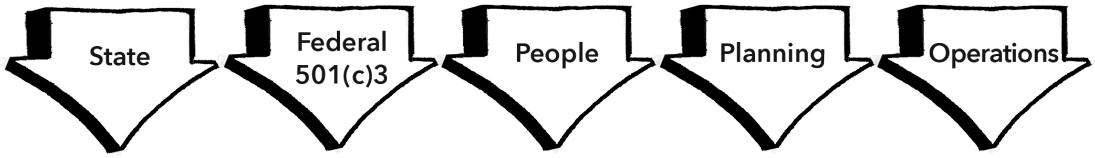
Part 3: Start a Nonprofit

You have decided to start a nonprofit. You have done due diligence in making a decision that you and your community stand behind. Now what? There are four big ideas to consider as you begin the actual work of starting a nonprofit organization.

1. **There are five main pathways of activities involved in starting a nonprofit: State, federal, people, planning and operations.**
2. **It is easier to build good habits from the start than change habits later on.**
3. **A nonprofit often transitions from "start-up mode" to being operational faster than expected, so prepare for this transition.**

The following sections explore these ideas one by one:

1. There are five main pathways of activities involved in starting a nonprofit:



Each of these is covered in greater detail below and on the next page.

A. **State law**: You'll need to register with Washington State agencies. There are 3 main offices to be aware of and possibly communicate with:

Office of the Secretary of State/Corporations: You apply to the Office of the Secretary of State to become a nonprofit corporation. This is called "incorporation." You are then required to submit an Annual Report every year after that.

Once the organization becomes a corporation legally, it has to act like a corporation. That means it is no longer just a project of yours. The assets, including money, must be kept separate from any personal assets. Corporate activities, like board meetings and board decisions, must be documented and corporate records must be kept.

Office of the Secretary of State/Charities: If you ask members of the general public to give to your organization and raise $50,000 or more in a year, or if you pay anyone to do the work of the organization, you'll apply to the Office of the Secretary of State to be a Charitable Organization. You are then required to submit an Annual Renewal every following year.

Department of Revenue: You may need to apply for a Master Business License if you are conducting certain kinds of business, hire employees, or have a trade name. See Resources (page 31) for a link to a website to know more.

Registering in Washington State: For more on state law, see the Washington State Handbook and "Let's Go Legal." Nonprofit Navigator on page 26 has key links.

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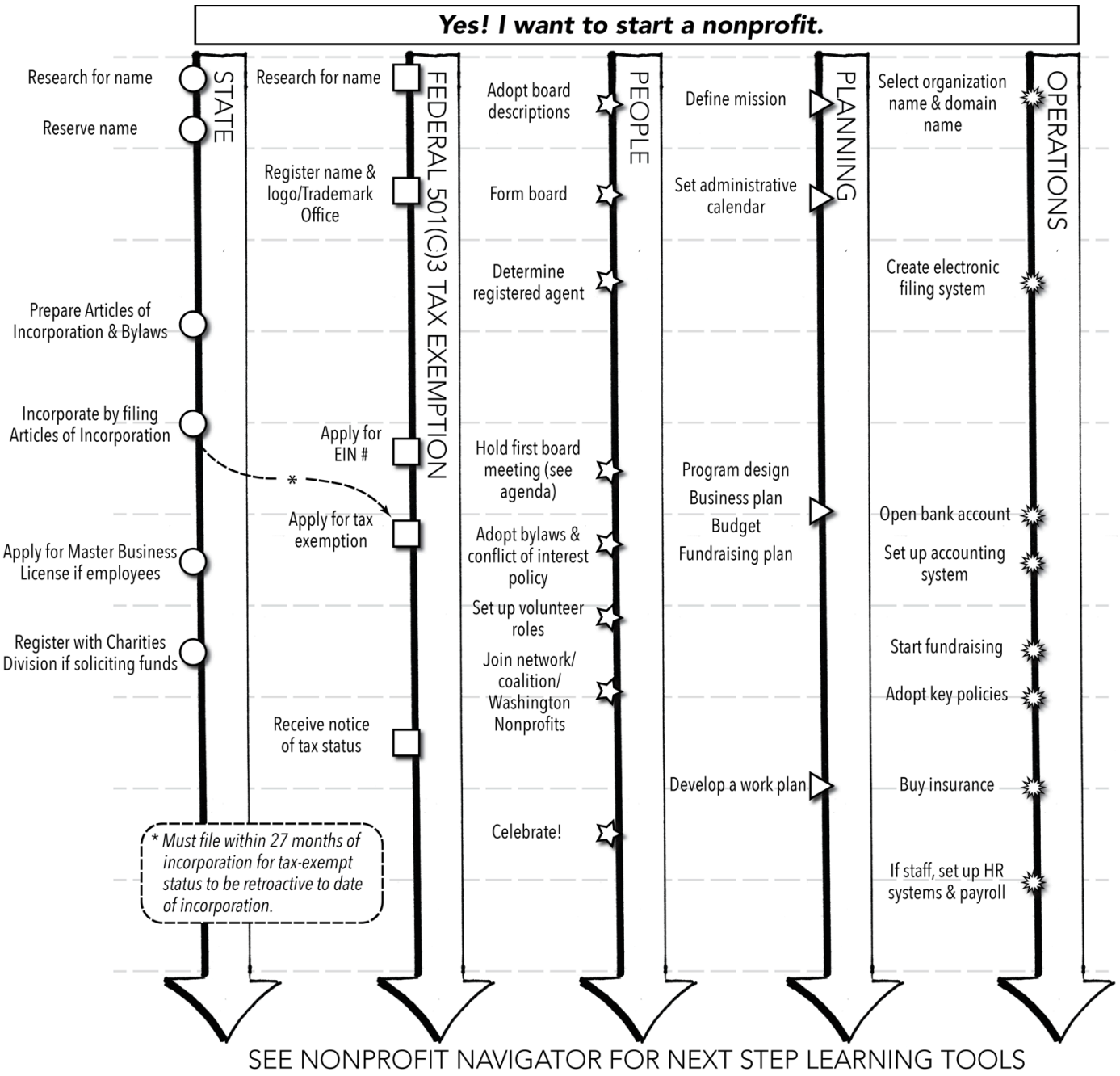
Five Main Pathways of Starting a Nonprofit



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Registration in Washington State

This graphic was designed to help you track the due dates of the Washington State Office of the Secretary of State Corporations and Charities registrations.

Stay Up-to-Date with the Secretary of State

Nonprofit and charitable organizations need to register and stay up-to-date with the Office of the Secretary of State.

❶ Check which type of organization you are. ❷ Note your key dates. ❸ Put those dates onto your organizational calendar.

❶ ☐ Nonprofit Corporation

What is it: A private corporation for which no part of the income is distributable to its members, directors or officers. It is formed to benefit the public, a specific group of people, or the membership of the nonprofit.

Examples: Labor union, chamber of commerce, social clubs, business leagues.

Annual Requirements:
- ☐ **What**: Annual Report
- ☐ **When**: Last day of organization's incorporation month. A reminder will be sent to the registered agent at least 30 days prior to required filing date.
- ☐ **Cost**: $10

❷ ☐ Nonprofit and Charitable Organization

- ★ *60% of charitable organizations are also nonprofit corporations.*
- ★ *They include many of the organizations we know providing direct service, supporting the arts, or advocating for causes.*
- ★ *They follow both sets of requirements to be in compliance with the Secretary of State.*

Developed by:

☐ Charitable Organization

or individuals soliciting on behalf of organizations

What is it: An entity that solicits or collects contributions from the general public in Washington to be used to support a charitable purpose. May or may not be a corporate structure.

In Washington, includes organizations that:
- ☐ Raise at least $50,000 annually in Washington; **OR**
- ☐ Pay anyone to carry out the activities of the organization.

Examples: Education, health, social service, religious, cultural, and scientific organizations. **Examples that are NOT necessarily nonprofit corporations**: Individual fundraisers, out-of-state organizations, foreign corporations, some associations. Churches may register but are not required.

Annual Requirements:
- ☐ **What**: Annual Renewal
- ☐ **When:** No later than the last business day of the eleventh month after the end of the organization's accounting year. Earlier reporting welcome!
- ☐ **Cost**: $40

http://www.sos.wa.gov/charities/WanttoRenewYourCharitiesRegistrationEarly.aspx

Your accounting year end: _____

Your charities filing date: _____

For example, an accounting year end of February 28, 2017 would have an annual renewal filing date of January 31, 2018.

More information:
http://www.sos.wa.gov/charities/

Your incorporation date: _____

Your annual report filing date: _____

For example, an incorporation date of March 3, 2002 would have an annual report filing date of March 31, 2018. File online!

More information:
http://www.sos.wa.gov/corps/NonprofitCorporations.aspx

❸

ADD TO CALENDAR
...and don't forget to update address changes if you move or change contact person.

WASHINGTON NONPROFITS

SOS Office of the Secretary of State Kim Wyman

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B. **Federal law**: If you are raising money from individuals or from foundations, government or corporations, apply for tax-exempt status under Section 501(c)3. This is optional—you may decide that you don't need this added step.

> **Registering with the IRS**: See below for information on whether your State-registered nonprofit really needs to obtain tax exempt status with the IRS. See the Nonprofit Navigator on page 26 for links to the IRS. See the Washington Nonprofit Institute on page 27 for federal topics covered by "Finance Unlocked" and "Let's Go Legal."

C. **Community**: As discussed in the Know section of this toolkit, your board, volunteers, and community members are very important in ensuring the success of your organization.

D. **Planning**: You started planning in the Decide section of this toolkit. It is important to keep thinking about the future and documenting your plans as you move forward.

E. **Operations:** And then there is everything else… activities that support the effective running of your organization.

> **Community, Planning & Operations**: See Nonprofit Navigator on page 26 for more resources.

To 501(c) or Not to 501(c)

Being tax-exempt means that you do not have to pay federal corporate income tax on revenues and that contributions given to your organization may be tax-deductible to the donor. You have to apply for this exemption and file an annual report (IRS Form 990). Is it worth it? Ask yourself these questions:

Does a current or future funder require federal tax exemption? Most government, foundation, and corporate funders require that you have tax-exempt status. If you do not plan to apply to government or foundations for funding, this is not a consideration. If you do plan on applying to a government agency or foundation, your nonprofit will need its own tax-exempt status under 501(c)(3) or you must be fiscally sponsored by another nonprofit with 501(c)(3) status.

Do you anticipate your individual donors wanting the ability to deduct donations on their tax returns? This is only helpful for people who itemize on their annual tax return. You may get most of your donations from people who do not care about this. Beginning in 2018, fewer people may be able to deduct their charitable giving as a result of changes in tax law.

See the Washington Nonprofit Handbook for more information.

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2. It is easier to build good habits from the start

You will save time and frustration later on if you start with good habits.

There are two main categories of habits for you to consider:

A. Building Community

Being in community with others to do the good you want to achieve is necessary for success. Starting and running a nonprofit is a lot of work and cannot be done alone or even with a few people. Nonprofits need community support to help do the work and for financial support. Building community by developing authentic relationships with others in the community who have the same goals as you is a critical part of starting a nonprofit.

Creating regular and positive connections with others is an important habit. For example:

- Talk to other community members who you know or are involved in similar activities in your community about what you are doing. Ask them if they are interested in being a part of this work or know of others who might be interested in getting involved.
- Start board meetings by stating your mission. Include it at the top of your meeting agenda.
- Build a time for gratitude into your meetings.
- Schedule at least 10 minutes of learning time into board meetings.
- Schedule a retreat at least once a year for strategic planning and assessment.
- Join a local nonprofit network or a coalition connected to the work that you will be doing.
- Join Washington Nonprofits, your nonprofit state association.
- Explore resources available through 501 Commons and Wayfind.

Turn to page 26 for the Nonprofit Navigator to find out who you should contact for what kind of help.

B. Clear jobs and systems

A lot of decisions move forward fairly quickly when you start a nonprofit. Keeping track of paper, deadlines, filings, etc. can be hard. Here are some ideas to create clear jobs and systems:

- Create a board binder or electronic filing system to keep key corporate documents safe and available. Make sure all board members have access to these documents.
- Create an organizational calendar with key compliance deadlines and annual activities like budgeting.
- Discuss Conflict of Interest and adopt a policy as soon as you can – and before applying for tax exemption. (See Resources, page 31, for more information.)
- Discuss and write down a board job description. (See Resources, page 31.)
- Choose a Registered Agent for the Office of the Secretary of State who is reliable and who has a stable mailing address.
- If you have staff, discuss and write down their job descriptions.

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3. Get ready for transition

Just as a baby quickly transitions into being a toddler, a new organization transitions from planning to operating mode generally a year or so after its founding. It is important to have this transition in mind so that it doesn't take you by surprise.

Some activities to work on as the organization begins to operate:

- **Board development**: Eventually you will want to build your board in an intentional way. See Board Development, page 31, for information about a set of resources designed to help you.
- **Plan-building**: You may be ready for a Business Plan if you don't have one already. You may be better suited for a Strategic Plan. Either way, taking time to plan your activities and finances for the next year is important so you know where you are headed and have an idea of how you will get there.
- **Funding plan**: This is part of plan-building, but it needs to be highlighted because money is the fuel that propels you forward. Planning to have several different sources of funding will help you become more sustainable.
- **Staffing**: Many organizations never hire staff, while others seek to hire staff early in their life cycle. This is an important part of planning if it is something on your horizon. It is important to understand employment law before starting the staffing phase of your organization.

The Nonprofit Navigator and Resources pages in the next section have information on how to move these ideas forward.

Congratulations! You made it through "Starting a Nonprofit."

Keep reading for ways to get what you need to keep going.

A whole community of organizations exists to support you and your group as you achieve your mission. They look forward to hearing from you!

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Nonprofit Navigator

You want to make a difference. You are not alone. In Washington, there is a constellation of organizations whose missions are centered on your success. They work with partners across the state and are able to connect you with local nonprofits, consultants, service providers, and networks. Use this navigator to figure out who can best help you. The good news is that any of the Washington-based organizations named below can serve as the front door to getting you help, since they work closely together.

WHAT DO YOU NEED?	WHO CAN HELP
I need to REGISTER as a nonprofit corporation. I need to REGISTER as a charity. I need to RENEW our registration as a corporation or charity, or both.	Washington State Office of the Secretary of State http://www.sos.wa.gov
I need to REGISTER with the IRS as a tax-exempt organization. I need the IRS FORMS.	Federal Internal Revenue Service (IRS) https://www.irs.gov/charities-non-profits
I want to LEARN. I want ideas on how to bring LEARNING into my board meetings. I want to CONNECT with other nonprofits or nonprofit networks in my community. I want to strengthen my voice in PUBLIC POLICY.	Washington Nonprofits http://www.washingtonnonprofits.org http://www.wanonprofitinstitute.org
I want to LEARN. I have an information or referral QUESTION related to our nonprofit. I need help with SYSTEMS: board development, strategic planning, human resources, technology, data systems, communications, and financial management. I'm looking for a CONSULTANT.	501 Commons 501 Commons trainings, Learning Catalog, and online Best Practice resources http://www.501commons.org
I have a legal question. I need pro-bono legal assistance. I want resources on fiscal sponsorship. I would like to attend a training on nonprofit law	Wayfind http://www.wayfindlegal.org

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Washington Nonprofit Institute

This toolkit covers how to start a nonprofit. It leads into a set of additional toolkits used by nonprofits to strengthen their board practice. There is a wealth of learning, conversation starters, and key documents available in the following toolkits.

http://www.wanonprofitinstitute.org

Boards in Gear: Explains five main areas of board practice: Connection to Cause, Roles & Responsibilities, Board Development, Board Operations, and Fundraising. All board members will benefit from watching the short videos and reviewing the supporting kit materials.

Finance Unlocked for Nonprofits: Covers five main areas nonprofit board members need to know about finance: How to read a Balance Sheet and Income Statement, IRS Form 990, Giving, and Oversight. All board members should watch the videos and review the supporting kit materials.

Let's Go Legal: Discusses five main areas nonprofit board members need to know about nonprofit law: State and Federal Law, law related to Fundraising, Employment Law, and Intellectual Property. All board members should watch the first 3 videos and review the supporting kit materials. Review Employment and Intellectual Property as needed.

In addition, there is a toolkit on planning called **Strategic Planning in Nonprofits**. You may find this helpful as you craft your mission and vision or dive into deeper planning that typically happens as you transition into being more operational.

The website also contains archived webinars on these important topics:

- Bylaws
- Culture
- Fiscal sponsorship
- Fundraising
- Human Resources
- Insurance
- Liquor laws related to events
- Nonprofit Legal Checklist
- Technology
- Volunteer Management

The Washington Nonprofit Institute website also serves as a clearinghouse, with links to sample documents and resources that board members and staff will find useful.

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Glossary

501(c) organizations: There are 29 different types of tax-exempt organizations under federal law, most in Section 501(c). The most common ones are:

> 501(c)(3): Organizations organized for charitable purpose across a wide spectrum of topics. Contributions are generally allowed to be tax-deductible.
>
> 501(c)(4): Civic leagues, social welfare organizations, and associations of employees. These organizations are organized to influence public policy and public opinion. Contributions to these organizations are generally not tax-deductible.
>
> 501(c)(6): Business leagues and chambers of commerce. Contributions are not generally tax-deductible.

Articles of Incorporation: This is the document that creates the corporation. It needs to meet both the state requirements for a nonprofit corporation as well as federal tax law requirements to quality as a 501(c)(3) organization if you are going to apply for that. See "Let's Go Legal" on the wanonprofitinstitute.org website for sample Articles of Incorporation.

B Corp: A B Corp is a corporation that has been certified by nonprofit B Lab to meet certain standards of social and environmental performance, accountability, and transparency.

Budget: Your budget is your financial plan. It lays out how you expect to receive and spend money over a specific period of time, usually one year. It should be developed in tandem with your fundraising plan and is part of your overall business plan. See Resources for a Budget Template.

Business plan: This plan outlines your activities, operations, and funding model. In addition to guiding your organization, a Business Plan is a great tool to develop answers to the IRS application for tax-exempt status. See Resources for a Business Plan Template.

Fundraising plan: Your fundraising plan is the part of your business plan that outlines your fundraising activities, which may include events, individual contributions, contracts and grants. See Resources for a Fundraising Plan Template.

Bylaws: Your Bylaws are the rules of operation for your organization. Rules on how boards are selected and make decisions are in the Bylaws. See "Let's Go Legal" on the wanonprofitinstitute.org website for sample Bylaws.

Charity: Officially, this is a nonprofit that is registered to fundraise (or solicit donations) with the Office of the Secretary of State. An organization is required to do so if it is either raising at least $50,000 in any accounting year or paying someone to do the work of the organization.

Fiscal sponsorship: A formal arrangement in which a 501(c)(3) organization sponsors a project or organization that does not have its own tax-exempt status under Section 501(c)(3). The sponsored organization can seek grants and solicit tax-deductible donations under the sponsor's exempt status. The sponsor is ultimately accountable for the activities of the sponsored organization.

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IRS: "IRS" stands for the Internal Revenue Service. The IRS is the taxing agency for the United States Government. The IRS is the federal agency that regulates and monitors 501(c)(3) organizations. Section 501(c)(3) of the Internal Revenue Code is the law that applies to 501(c)(3) organizations.

Organizing Plan: An organizing plan is high-level information about your idea and how you plan to implement it. It is an important tool in deciding whether or not to start a nonprofit. Use the Decision-Making Tools on page 16 to complete the Organizing Plan on page 37.

Nonprofit (or nonprofit corporation): An organization created for a public benefit without shareholders or a profit motive. Nonprofit status is determined under state law. A nonprofit registers with the Washington Secretary of State as a corporation; the process is called "incorporation." CPAs often call these organizations "Not-for-profits" to underscore that their purpose is something other than profit. The organization can generate net income at the end of a year but those funds cannot be distributed to individuals.

Social Purpose Corporation: A social purpose corporation is a for-profit corporation formed to promote at least one general social purpose. It may promote positive (or minimize adverse) short-term or long-term effects of the corporation's activities related to (1) employees, suppliers, or customers; (2) the local, state, national, or world community; or (3) the environment.

Strategic plan: A document developed by the board that outlines the organization's strategy over several years. A strategic plan sets out the organization's goals and the activities and strategies it will use to accomplish those goals. See the Washington Nonprofit Institute (page 27) for information about "Strategic Planning in Nonprofits."

Tax-exempt organization: A nonprofit corporation that has been approved by the Internal Revenue Service (IRS) is called "tax exempt." Tax-exempt status exempts a nonprofit from paying *federal* corporate income tax and allows contributions given to the organization to be tax deductible to the donors if the organization is a 501(c)(3) organization. See the glossary, page 28, for some of the classifications of tax-exempt status. Tax-exempt organizations still have to pay federal employment taxes.

Work plan: A detailed planning document that lists specific activities to accomplish in a particular time period to support your mission and strategy. It typically includes who is responsible for specific tasks and due dates.

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Nonprofit Wildcard

Be prepared by thinking through scenarios before they happen.

Starting a nonprofit is like playing The Game of Life. You may be dealt a card you weren't expecting. You might have to shift your plan in order to take advantage of an opportunity or manage a new challenge.

Here are some real "nonprofit wildcards" that might come your way. What would you do in the event of…

Good news?

- A major donor steps forward to support your work.
- Your organization receives positive news coverage.
- Another organization is interested in your work.
- Important community leaders join your effort.
- There is a demographic or political trend in your favor.
- A new law drives up a need for your service.
- Technology accelerates your success.

Bad news?

- An important partner drops out.
- A major donor backs out.
- You receive the wrong tax-exempt type.
- Too much of your money comes from one source so IRS determines you to be a private foundation rather than a public charity.
- You don't have the right to use the name you choose because of an Intellectual Property issue.
- You are offering redundant services.
- You receive negative news coverage, either about your organization or some aspect of your cause.
- You can't find board members
- There is a negative trend impacting you.
- Technology replaces the need for your organization.
- Your international development project was blocked in a host community.

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Resources

Following are more detailed resources to address concepts mentioned in this toolkit.

501(c) types. This is a detailed list of the types of organizations, as classified by the IRS. http://www.muridae.com/nporegulation/documents/exempt_orgs.html

Articles of Incorporation. The "Let's Go Legal" toolkit covers Articles of Incorporation in its first two chapters on state and federal law. Visit wanonprofitinstitute.org for "Let's Go Legal."

B Corporation. Visit here for more information: https://www.bcorporation.net/what-are-b-corps

Board development. The "Boards in Gear" toolkit covers how to build a great board in its third chapter, "Board Development." Visit wanonprofitinstitute.org for "Boards in Gear." 501 Commons also provides board development pages on their website.

Board job descriptions. "Boards in Gear" includes a set of key documents, such as board member job descriptions. Visit wanonprofitinstitute.org for "Boards in Gear." 501 Commons offers Best Practices for Boards.

Business plans. There are many examples of completed Business Plans available online. Follow these two links to see some of them:

https://www.councilofnonprofits.org/tools-resources/business-planning-nonprofits
https://www.bridgespan.org/insights/library/strategy-development/sample-nonprofit-business-plans

You can contract with 501 Commons consultants to help you develop or to review your business plan.

Bylaws. Wayfind and Washington Nonprofits teamed on a webinar on by-laws, which is archived on the Washington Nonprofits Institute website. It is worth watching this video before you write up your bylaws. Visit wanonprofitinstitute.org for the webinar.

Conflict of Interest. "Let's Go Legal" includes set of key documents, including a Conflict of Interest policy. Visit wanonprofitinstitute.org for "Let's Go Legal."

Department of Revenue (WA). Visit their website to see if your organization will need to apply for a Master Business License. https://dor.wa.gov/doing-business/business-types/industry-guides/nonprofit-organizations

Employment law. "Let's Go Legal" includes a chapter on Employment Law. This is a great place to start if you are considering hiring staff. Visit wanonprofitinstitute.org for "Let's Go Legal." 501 Commons offers HR Quick Consults and HR services and consultants.

Fiscal sponsorship. Wayfind and Washington Nonprofits delivered a webinar on fiscal sponsorship, with the recording available on Vimeo (https://vimeo.com/148384815). The Washington Nonprofit Handbook contains more information.

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Internal Revenue Service (IRS). The IRS has a comprehensive website. To learn how to apply for tax exempt status and what annual reports and filings are needed, go here: https://www.irs.gov/charities-non-profits.

Strategic Planning. "Strategic Planning in Nonprofits" covers strategic planning from community listening through evaluation. There are resources here that would be helpful for new nonprofits, like mission statement writing and how to facilitate effective community meetings. Visit wanonprofitinstitute.org for "Strategic Planning in Nonprofits."

Washington State Office of the Secretary of State. There is excellent information on nonprofits here: https://www.sos.wa.gov/corps/nonprofitinformation.aspx. Follow links to Corporations or Charities for more information on either of those topics.

You can also call their office if you have any questions: (360) 725-0377.

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Quiz

There is a lot to know in starting a nonprofit. Here is a quick quiz to check what you remember.

1. Who owns a nonprofit?
   A. Founder
   B. Community
   C. Board
2. How often must a nonprofit communicate with state and federal agencies?
   A. One time
   B. When there is an update
   C. Annually
3. The best way to recruit board members after your organization is started is to:
   A. Recruit people of wealth in the community
   B. Invite friends who support your interest
   C. Identify people connected to your mission
4. When is it appropriate to start thinking about financial controls?
   A. When you take your first donation
   B. When you have at least $5,000
   C. When you are operational (no longer in start-up mode)
5. When do foundations typically start funding new organizations?
   A. In start-up mode
   B. After programs begin
   C. After a few years of programming when there is a track record

Quiz Answers:

1. (B) A community owns an organization. A nonprofit corporation has been given its charity status by the state and, in some cases, federal government because it has a social benefit. If a nonprofit goes out of business, its assets go back into the community, not to any one individual.

2. (C) A nonprofit must communicate with state agencies (corporations and charities if appropriate) once a year. This is in the form of an Annual Report (corporations) or Annual Renewal (charities). If it has 501(c) public charity status, it must also communicate with the IRS once a year. This is done through IRS Form 990, 990 N, or 990 EZ.

3. (C) The best way to recruit board members is to find people who are really passionate about the mission. The other options are common, but hopefully those people also have a strong connection to your mission.

4. (A) You don't want to risk any money you have. As soon as you have any money, you should think about checks-and-balances to keep those funds safe.

5. (C) Foundations tend to fund nonprofits with a track record. There are exceptions, but you should plan on raising funds from individuals at the start.

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Sample First Board Meeting Agenda

(Held after Articles of Incorporation are filed)

Mission: Our mission is _____

.

Possible meeting goals:

- ❑ Approve the bylaws.
- ❑ Elect officers (if not done already).
- ❑ Elect additional board members.
- ❑ Discuss need for federal tax exemption and authorize officers to seek federal tax exemption if approved.
- ❑ Authorize officers to set up a bank account for the corporation and determine who will be check-signers (people authorized to sign checks on behalf of the organization).
- ❑ Authorize officers to purchase Directors & Officers insurance once the bank account is set up.
- ❑ Adopt board policies, including a code of conduct, a conflict of interest policy, and a document retention policy.

Elements of a board meeting agenda

1. Welcome
    a. Gratitude
    b. Mission
2. Introductions/update from board members (some sort of engagement, warm-up conversation)
3. Discussion and decision topics – What does the board need to decide at this meeting? (See meeting goals above and customize according to where your organization is in the process.)
4. Learning – What topic will be discussed to further board learning? For the first meeting, it is a good start to discuss what information board members would be interested in learning more about. You can share a calendar of upcoming learning opportunities to see who can attend.
5. Pulse – Review what you accomplished this meeting, what needs to be accomplished before the next meeting, and what the goals of the next meeting will be.
6. Connection – Leave time for conversation, celebration… whatever connects your board members to each other.

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Budgeting Worksheet

ORGANIZATION: BUDGET DATE:					
			Annual Budget	Year 1*	
				One-time	Recurring
Support	Contributions				
	Foundation grants				
	Government grants				
	Special events				
	Other:				
		Total support			
Revenue	Admissions				
	Membership fees				
	Fee-for-service income				
	Interest income				
	Other:				
		Total revenue			
Expenses	Salaries, benefits, & taxes				
	Occupancy (rent, utilities)				
	Program expenses				
	Professional fees				
	Supplies				
	Printing				
	Insurance				
	Fundraising				
	Interest				
	Other:				
	Miscellaneous				
		Total expenses			
	Excess (Deficit)				
	Beginning net assets				
	Ending net assets				

* *It is helpful to account for one-time start-up expenses that will not be necessary once you are up and running. Use these columns to keep track of one-time income or expenses vs. on-going income or expenses.*

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Fundraising Plan

Write down the names of funding sources with as much specificity as you can.

Source of revenue	Year 1 Goal	Year 2 Goal
SUPPORT (contributions)		
REVENUE (earned)		
TOTAL INCOME (SUPPORT + REVENUE)		

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Organizing Plan

Does the activity you want to do qualify as a nonprofit?	Yes / No If no, you can stop here. If you don't know, contact Wayfind for guidance.
NEED	
What is the need that you want to address?	
What demonstrates that need?	
What other organizations are working on this need?	
What is different about your approach?	
How might you partner with an existing organization?	
PURPOSE	
What is your mission?	
What does success look like?	
What activities will allow you to achieve success?	
FUNDING	
What individuals, groups, governmental organizations or companies will commit resources to your organization? Make a list of them.	
Who else will commit resources (foundations, government agencies, businesses, etc.)?	
What can you do to generate revenue?	
How do you know? What commitments have they made?	
COMMUNITY	
Have you spoken to community members about your idea? Is there community support?	
Have you established relationships with other community members interested in your purpose?	
Have any other community members or partners committed to partnering with you on this work?	
Who will serve on your founding board? (You should have at least 3 unrelated people.)	
What skills do you and your supporters have to contribute to the organization?	
What skills will you need from outside your organization?	

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Business Plan

See Resources (page 31) for links to sample business plans. They can be as simple or as complex as you are willing to do.

SECTION 1: Background

Problem the organization has been created to address

A. The cause of the problem
B. Facts and stories that illustrate the problem
C. What the organization will do to address the problem
D. What evidence do you have that this is not already being done or is not available to the people you expect to serve?
E. How you will measure your impact

SECTION 2: Organizational Strategy

Purpose of this section: How will what you do bring about a solution to the problem? (This is sometimes referred to as a "Theory of Change.")

A. Description of your organizational strategy
B. Describe how what you will do will address the problem(s) your organization is being formed to address. Your organization's strategies should explain the specific activities that will be carried out.
C. Desired impact: what the client/community will look like if we are successful

Key strategies* (no more than 3)

Strategy 1

A. Brief description
B. What will be done to address the problem? When will this be done?
C. What is the goal of the activity?

Strategy 2....

Strategy 3....

- How will you know if you are being successful?
- Describe the outcomes you expect to generate. Specifically, how will you measure results and what change do you expect to occur?

---

* There is a lot of discussion among nonprofit people about the difference between goals, strategies and objectives. It can be confusing for people who are new to these words. For more background on this, see "Strategic Planning in Nonprofits" (Washington Nonprofit Institute, page 27). Ultimately what matters is that you have an approach to a problem that will make a difference.

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SECTION 3: Organizational structure

Purpose of this section: Define how the organization will be organized to realize its organizational strategy.

Board of Directors

A healthy board has at least 4 members, including three not related to the founder, to get started. Insert names, addresses, and positions/titles of board members below. Be sure to note the name of the president, vice-president, secretary, and treasurer. Describe what types of board members will be recruited.

NAME	CONTACT INFORMATION	BOARD POSITION

Staff

- Do you intend to have paid staff?
- What positions will be staffed, and how will you phase in these new hires?
- If you will not have staff, how will volunteers be involved in the work of the organization?

Infrastructure

- What systems do you need?
- What is your timeline to implement them?

NEED	TIMELINE	COST/RESOURCES NEEDED
Financial management systems		
Computers/technology		
Website		
Postal address		
Database (method of tracking donations and volunteers)		
Human Resource / volunteer policies		
Other:		
Other:		
Other:		

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Administrative Calendar

Looking at the checklist for running a nonprofit on page 43, place key activities on this administrative calendar.

Date of incorporation:					
Fiscal year starts:			ends:		
	STATE	FEDERAL	PEOPLE	PLANNING	OPERATIONS
January					
February					
March					
April					
May					
June					
July					
August					
September					
October					
November					
December					

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Basics of Starting a Nonprofit Checklist

Page 1 of 2

These are the main tasks involved in starting a nonprofit. They follow the 5 Main Pathways graphic on page 21. Some of these steps contain many parts to getting them done. Please refer to the Washington Nonprofit Handbook for more information.

STATE

- ❑ Research for name (Sec of State website or browsers)
- ❑ File "name reservation" (optional)
- ❑ Prepare Articles of Incorporation & Bylaws
- ❑ Incorporate by filing Articles of Incorporation
- ❑ Apply for Master Business License
- ❑ Register with the Charities Division if you plan on raising funds from individuals

FEDERAL

- ❑ Research for name
- ❑ Register name and logo with patent/trademark office
- ❑ Apply for EIN#
- ❑ Apply for IRS tax exemption

PEOPLE

- ❑ Organizing group adopts board job descriptions
- ❑ Form board
- ❑ Determine registered agent
- ❑ Hold first board meeting

See the Washington Nonprofit Handbook for detailed information.

- ❑ Adopt a conflict of interest policy
- ❑ Set up volunteer roles
- ❑ Join network/coalition/Washington Nonprofits
- ❑ Celebrate

PLANNING

- ❑ Define mission
- ❑ Set administrative calendar (key compliance dates, state and federal filings, business license renewals, and annual budgeting)
- ❑ Start program design, business plan, budget, fundraising plan
- ❑ Develop a work plan

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Basics of Starting a Nonprofit Checklist

OPERATIONS

- ❑ Select organization name and domain name
- ❑ Set up an organizational email domain using Office 365 or Google Apps
- ❑ Open bank account
- ❑ Set up accounting system, including Chart of Accounts
- ❑ Create an electronic filing system
- ❑ Start fundraising
- ❑ Adopt key policies
    - o Financial procedures policies
    - o Document retention
    - o Conflict of Interest
- ❑ Buy insurance
- ❑ If staff, set up HR systems and payroll

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Basics of Running a Nonprofit Checklist

Once your nonprofit is started, these are the main tasks involved in keeping it running. Of course there is a lot more to know. Be sure to also review the resources listed on page 27 (Washington Nonprofit Institute) and page 31.

STATE

- ❑ Annual Report for corporation with Office of the Secretary of State *(due the last business day of the month of your organization's incorporation date)*
- ❑ Annual Renewal for charitable organization with Office of the Secretary of State *(due the last day of the 11th month after the end of the organization's accounting year)*

FEDERAL

- ❑ Annual filing of IRS Form 990 (due 4½ months after your fiscal year ends)

PEOPLE

- ❑ Regular board meetings – at least every other month
- ❑ Annual meeting if a membership organization
- ❑ Board recruitment and selection process
- ❑ Review of policies
  - o Document retention
  - o Conflict of interest
  - o Committee charters
  - o Board member job descriptions
  - o Officer job descriptions

PLANNING

- ❑ Annual work plan
- ❑ Strategic plan on a regular cycle (2-5 years is typical)

OPERATIONS

- ❑ Review financial controls
- ❑ Review risk factors
- ❑ Review insurance
- ❑ Review staff job descriptions

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