

# IS THE NONPROFIT BUSINESS MODEL RIGHT FOR YOUR NEIGHBORHOOD ASSOCIATION?



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# NEIGHBORHOOD ASSOCIATIONS

**Neighborhood associations are voluntarily organized groups of residents who work together to create a unified voice, enhance living conditions in their neighborhood, and address neighborhood concerns.**

The purpose of your neighborhood association is to advocate for your neighborhood with local government, improve neighborhood amenities, and organize activities.

The format and structure of the group depend on the needs of your immediate community, the residents who live there, and the businesses that operate there.

# WHEN IS IT RIGHT TO FORM A NONPROFIT

## When is the time right to form a nonprofit?

- When the neighborhood needs change and current resources are not sustaining the neighborhood's mission.
- When the current neighborhood association wants a formal nonprofit structure to deal with growth and/or changes that a volunteer/membership group can not handle.

# Seven Questions That Can Help You Decide If You Are Ready To Start A Nonprofit

If you can answer “yes” to 4 or more you may be ready.

1. **Will you serve a “charitable class?”** What is the group of people who will receive assistance or programming from your organization so that it benefits the community as a whole?
2. **Do you have a charitable “program?”** Who, what, when, where, and how? IRS requires tax-exempt charities be organized and operated exclusively for religious, charitable, scientific or educational purposes—that’s how they’ll assess if your organization qualifies.

# Seven Questions Continued

- 3. Can you comply with the record-keeping and reporting requirements to maintain your tax status?**  Form 1023 to qualify; Form 990 annual tax informational return; after 3 years if failing to file 990's on a timely basis, you will lose your nonprofit status—and have to appeal for them to reinstate your status.
- 4. Can you fund the start-up?** If you're short on funds but want to start anyway, can you enter into an agreement with an organization that will let you come under their tax-exempt umbrella as your fiscal sponsor.

# Seven Questions Continued

5. **Do you have an anticipated budget?** Learn about the public support test and what you need to pass the test. IRS will want 4 years of reasonable budgets as part of your application.
6. **Do you have a longer term funding plan?** The key is sustainability.
7. **Do you have a Board?** Typically 3-5 unrelated people to start. AZ much less restrictive-minimum of 1

# BENEFITS AND CHALLENGES TO BE A NONPROFIT

## Benefits

- Formal organizational structure that manages the association. This means it is a formal State and IRS recognized company to manage the day to day operations of the association.
- Enables your neighborhood association to accept tax-deductible donations and grants.
- Pima County can review property tax exemption request for company owned property. (nonprofit owned park, vehicle or building)

## Challenges

- Formal organizational structure – no one owner. Company is managed by the Board of Directors.
- Organization will have additional expenses such as:
  - Insurance - Errors/Omissions Insurance, Liability, Property and Workers Compensation
  - Staffing costs – FICA, State and Federal taxes
  - Bookkeeping relating to financials, filing 990 and other state/federal tax forms
  - Keep formal records of projects, outcomes and data
- More Administration and less flexibility. Need to formalize policies and procedures.



# What's it all about? Mission or Vision or Both

- Mission

**A Mission Statement defines the company's business, its objectives and its approach to reach those objectives.**

A mission statement is a concise explanation of the **organization's reason for existence**. It describes the organization's purpose and its overall intention.

The mission statement **supports the vision** and serves to communicate purpose and direction to employees, customers, vendors and other stakeholders.

- Vision

A Vision Statement describes the desired future position of the company. **Vision statements are future-based and meant to inspire** and give direction to employees of the company rather than customers.

# Strategies for Success

Build and maintain a strong, sustainable infrastructure to support operations and programs

Create and implement a financial model and development plan that will sustain the organization

Form and strengthen alliances and collaborations to support and enhance our programs

Provide programs and services that ensure the achievement of our mission and vision

# How to Get Started

- **Develop Mission Vision and Organizational Structure**

TASK	WHO DOES WHAT	COMMENT
Create a Founding Working Board 3-5 members- decide roles – President, Vice-President, Secretary and Treasurer	Founding Board Members	Find members who have same passion and bring resources to the table. Develop job descriptions. Try to always have an odd number of Board Members.
File Company name with AZ. Corp. Commission – Select AZ Nonprofit	Founding Board Members	
Hold First Board Meeting – appoint members	Founding Board Members	
Start Articles of Corporation and By-Law	Founding Board Members	
Open a bank account	Founding Board Members	Will need filed Articles and By-Laws and Board Resolution to open the account and signers

# How to Get Started

## Develop Operational Documents and Infrastructure

TASK	WHO DOES WHAT	COMMENT
Put together a growth business plan and 3-5 year financial projections. Also secure insurance for the organization.	Governing Board Members	Will guide you in your mission vision, programs, marketing, competition, SWOT and financial sustainability. <b><u>This will help you fill out your IRS 1023 application</u></b>
Complete IRS 1023	Governing Board Members	Use your business plan to answer all questions and narratives
Set up accounting chart of accounts, budgets, financial polices and fiduciary if needed	Governing Board Members	Use professional accounting software
Finalize development plan	Governing Board Members	This helps identify your fundraising goals and plans
Develop volunteer, staff job descriptions, handbooks and other operational policies and procedures	Governing Board Members	

# How to Get Started

Strengthen alliances and collaborations to support programs

TASK	WHO DOES WHAT	COMMENT
Explore partnerships with other businesses	Board, volunteers, staff and advisory board	May need a NDA, or due diligence prior to opening up discussions
Share or support programs	Volunteers and staff	Communication is important, build relationships to serve the community
Explore co-op/alliance opportunities for space, volunteers and administrative functions	Volunteers, staff and supporters	Joining forces together to share expenses and operational functions

# Resources

City of Tucson-Neighborhood Associations

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Center for Healthy Nonprofits – Community Foundation for Southern Arizona

<https://cfsaz.org/center>

SCORE –Southern Arizona Chapter

[www.southernarizona.score.org](http://www.southernarizona.score.org)

AZ Impact for Good – AZ Gives Day and Grant Station

<https://www.azimpactforgood.org>

Lodestar Foundation- ASU

<https://www.lodestarfoundation.org>

Candid Learning- State by State and Guidestar

<https://learning.candid.org/resources/nonprofit-startup-resources>

<https://www.guidestar.org>