



Q: WHAT IS A NONPROFIT ORGANIZATION?

A: The difference between nonprofit and for-profit organizations is that nonprofits use their profits to advance their programs, while for-profits distribute their profits to their owners or stockholders. Nonprofit organizations fall into five main categories:

1. Trade associations, organized to advance a group of people who have a profession in common (for example, Association of Research Librarians, International Association of Meeting Planners). This group also includes chambers of commerce and unions.
2. Charitable organizations, which must generally demonstrate a benevolent component. This is a diverse category, including religious groups, museums, environmental and educational organizations, libraries, and the many helping groups referred to as "charities." They are also referred to as 501 (c)(3) organizations, because that is the number of the IRS Code under which they are described.
3. Social clubs, such as country clubs and fraternal organizations.
4. Governmental groups, including city, county, state, and federal agencies.
5. Political groups, generally organized to promote certain policies, issues, or candidates for political office.

Go to <http://www.snpo.org/resources/typesofnonprofits.pdf> to download a chart detailing characteristics of types of nonprofits.

Q: SHOULD I START A NONPROFIT ORGANIZATION?

A: The key question to ask yourself is, "Who will benefit from the activity?" If the answer is that you or your family will benefit, then it's a good idea to start a for-profit company rather than a nonprofit organization. If your answer is that the community or the public at large will benefit, then a nonprofit structure may be the best route. The second question to ask yourself is, "Will I allow the board of directors to set policy, including my salary, benefits, and even my employment by the organization?" If your answer is "No, I want to keep control of the organization," then you want to make your corporation for-profit. If, however, you want the board to be autonomous, then a nonprofit organization can be a good fit. Remember, you can sit on the board and you can have a vote when it comes to determining policy. However, on issues that affect your employment, salary, and benefits, you must excuse yourself from voting.

Q: WHAT ARE THE FIRST STEPS TO STARTING A NONPROFIT?

A: Here are the basic things you need to do to get started:

1. Define your organization's purpose and form, and write a mission statement. Your mission statement should explain why people will want to invest in your organization (as donors, volunteers, or recipients of service). See "Demystifying the Mission Statement", reprinted from *Nonprofit World*, which explores this step in detail.
2. Form a board of directors. See *How to Create an Effective Board*, reprinted from *Nonprofit World*, for an idea of what you should look for in your board members.
3. File articles of incorporation. If you don't incorporate, board members and other individuals in your organization may be held personally liable in case of a lawsuit. Articles of Incorporation should be filed with your Secretary of State (or other department that has authority for this filing in your state).
4. Write your organization's bylaws, or the rules you will adhere to. An excellent source for sample bylaws and other forms needed to start a nonprofit organization is a book called *How to Form a Nonprofit Corporation: With Forms* by Mark Warda.
5. Apply for nonprofit status from the IRS. Ask your local IRS office for IRS publication 557 and IRS form 1023.
6. After you have received your letter of determination from the IRS, apply to your state department of revenue and your state department in charge of regulations (often called the Department of Regulation and Licensing). For more information go to <http://www.snpo.org/resources/howtoform.pdf>
7. Register your organization with the state. Contact the Secretary of State (Corporate Division) and Attorney General, Charities Division.
8. Apply for a solicitation license from your city. Check to see if your city requires you to have such a license before you can solicit funds.
9. Apply for sales tax exemption from your state.
10. Apply for nonprofit bulk mail permit from your post office.
11. Obtain liability insurance, including Directors' and Officers' (or D & O) insurance. D & O liability insurance is necessary to protect your board members' assets.

See a Reference Librarian for more resources about nonprofit organizations.

Q: DO I NEED A LAWYER & HOW DO I CHOOSE ONE?

A: You can do most of the work of starting your organization on your own, but you should have your paperwork checked by an attorney. It's important to get an expert's help in setting things up as the law requires. To choose a lawyer, find someone with a good local reputation and experience in the nonprofit sector. Get referrals from nonprofit leaders you respect. You can also check with the American Bar Association (800-285-2221), your state or local bar associations, the Christian Legal Society (703-642-1070), or lawyer referral services.

Q: WHERE CAN I GET MONEY TO START MY ORGANIZATION?

A: See *Starting a Fundraising Program Without Any Funds* at <http://www.snpo.org/samples/V060603.pdf>, reprinted from *Nonprofit World*, which addresses this question. Also see the Resource Center's 'Shopping Cart' at <http://www.snpo.org/resources/index.php> for other resources that speak to the question of raising funds.

Q: HOW SHOULD WE APPLY FOR GRANTS?

A: See the resources listed at <http://www.snpo.org/resources/links.php> for information on applying for grants. You might also consider joining the Foundation Center's Associates Program, which will help you define your needs and understand the basics of the grant process. For more information, contact the Foundation Center, 79 Fifth Avenue, New York, N.Y. 10003-3076 (800-424-9836) and ask about the Associates Program. Remember that while it's useful to investigate applying for grants, your organization will be stronger and more self-sufficient if you think of grant money as only one part of a broad base of funds.

Q: HOW CAN WE BE SURE WE START OFF ON A GOOD FINANCIAL FOOTING?

A: It's crucial to have a good, solid budget and to run your organization like a business from the very beginning. In his excellent book *Mission-Based Management* Peter Brinckerhoff explains that a businesslike philosophy does not mean ignoring your mission - just the opposite. It ensures that you will "get more mission for your money," doing more with the limited resources at your disposal. Other useful books on budgeting and accounting include *Financial Empowerment* and *Streetsmart Financial Basics for Nonprofit Managers*.

Q: MUST WE REGISTER IN OTHER STATES IF WE PLAN TO RECEIVE CONTRIBUTIONS IN OTHER STATES?

A: If someone from another state wants to send you a contribution, it's not necessary for you to register in that state. On the other hand, if you plan to send a direct-mail marketing piece to the general public in another state, you may find it prudent to register with the Department of Regulation in that state. Then, people can call their Department of Regulation to be sure you're a bona fide charity. If they call and you're not registered, they may be reluctant to contribute to your organization. Thus, it's a good idea to register (and costs little or nothing to do).

Q: WHEN CAN I START SOLICITING DONATIONS?

A: Wait till you receive your incorporation papers and letter of nonprofit status. It's too risky to start soliciting donations before you have those official documents in hand. Until you're incorporated, you're personally liable for what you do with donated money. If you were later sued, it could wipe out your personal assets. After you're incorporated, you have the corporate shield to protect your assets. For another thing, until your organization receives its letter of determination from the IRS, donors cannot be sure that their contributions will be treated as deductible. See "May We Say Our Donations Are Deductible?", reprinted from *Nonprofit World*. If you want to start raising funds before you receive your papers, another alternative is to designate a fiscal agent. A fiscal agent is another nonprofit organization willing to handle your donations for you.

Q: AS A NONPROFIT ORGANIZATION, ARE THERE CERTAIN STANDARDS WE HAVE TO FOLLOW?

A: There are two watchdog groups which set standards for charities. See *Are You Meeting the Standards?* at <http://www.snpo.org/samples/V090305.pdf>, reprinted from *Nonprofit World*, for the names of these watchdog groups and a brief description of principles you need to follow as a nonprofit organization.

Q: WHERE CAN I FIND MORE INFO ON STARTING A NONPROFIT ORGANIZATION?

A: Check out the section on [Starting a Nonprofit Organization](http://www.snpo.org/resources/startingnonprofit.php) at <http://www.snpo.org/resources/startingnonprofit.php> in the Links section for a list of other places on the Internet with information on starting a nonprofit organization.