Before You Start a Nonprofit
Video Recording

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Topics

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Assessing your readiness

1) Do Your Research

- What is unique about your vision?

- Who cares about this issue? Assess carefully the need for your nonprofit.

- Who would fund this work?

- National Council of Nonprofits
  - http://www.councilofnonprofits.org/resources/how-start-nonprofit

- Guidestar
  - http://www.guidestar.org

2) Ask Key Questions

- Can you make a long-term commitment? Starting a nonprofit takes five to ten years, even a life-time.

- What skills, expertise and experience do you bring to the table? What will you look to others to provide?

- Do you have the relationships you need?

- Can you raise the funds you need? Many founders work for free for several years.

3) Consider Alternatives

- Could you start small, maybe with a fundraising event or one project?

- Could you work with your church or another nonprofit as your fiscal sponsor initially?
  - http://www.councilofnonprofits.org/resources/resources-topic/fundraising/fiscal-sponsors

- Could you have more impact volunteering, working or serving on the board of a group with a similar mission?

- Would your idea work as a program of another nonprofits? Look on Guidestar!

3) Consider Alternatives

- Explore national organizations to see if a local chapter is needed.

- For small, local projects, consider forming an unincorporated association or club – have meetings and activities but skip the reporting requirements (an option for groups with an annual budget of under $25,000).

- To finance activities or needs of others (scholarships, family emergency funds for a specific population, etc.), explore creating a fund with a community foundation.

  - https://www.tgci.com/funding-sources/SC/community

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Regulatory steps
to creating a nonprofit

1) Employer ID Number

- **Form SS-4**: Federal Employer Identification Number ("EIN") (needed for IRS, bank, other)

- Cost: None

  http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online

2) Incorporation in SC

- Incorporate in South Carolina by filing Articles of Incorporation with **the Secretary of State's** office.

- Cost: $25

  http://www.scsos.com/Library_of_Forms_and_Fees

  #Nonprofit – Domestic -> Articles of Incorporation

3) SC Charitable Registration

- If you plan to raise more than $20,000 or receive contributions from 10 or more people, you must **file a registration statement each year with the Secretary of State within 4.5 months after the close of your fiscal year** in each state in which you plan to raise funds.

- Cost in SC is $50

  www.scsos.com/public.charities or (803) 734-1790

4) Federal Forms

Requirements to receive tax exempt status under 501(c)(3) of the federal tax code:

① The purpose must be **charitable, religious, educational, scientific, literary, one that tests for public safety, one that fosters amateur sports competition, or one that works to prevent cruelty to children or animals.**

② An organization cannot qualify if a *substantial part of its activities include attempts to influence legislation or participates for or against a candidate for public office.*

③ The assets of an organization must be permanently dedicated to an exempt purpose

4) Federal Forms

– **IRS Form 1023**: Application for Recognition
  - http://www.irs.gov/uac/Form-1023,-Application-for-Recognition-of-Exemption-Under-Section-501(c)(3)-of-the-Internal-Revenue-Code

– **IRS Form 5768**: 501(h) Election to Make Expenditures to Influence Legislation
  - Makes it easier to lobby.
  - http://www.irs.gov/pub/irs-pdf/f5768.pdf

4) Federal Forms….

- Fill out 30-page form 1023.
    - Must include bylaws and Articles of Incorporation.
    - All applying organizations must provide schedules of income and expenses to the IRS.
    - A user fee payment must be included with your application. ($400 for gross receipts under $10,000; $850 for gross receipts over $10,000).

- Good idea to have a CPA or lawyer familiar with nonprofit tax law review before submitting.

- Can take 3-24 months to process.

- You must file your Form 1023 within 27 months after the end of the month in which you filed your Articles of Incorporation to ensure that your organization is tax exempt from inception.

4) Federal Forms

- **NEW! IRS Form 1023EZ**:
  - http://www.irs.gov/uac/About-Form-1023EZ
  - 3 Page online form.
  - For organizations that meet specific criteria.
    - http://www.irs.gov/pub/irs-pdf/i1023ez.pdf
    - Will you have Gross Receipts of more than $50K in next three years?
    - Do you have more than $250K in assets?
    - Other questions
  - $400 to file

5) Other Filings:

- **Property Tax Exemptions** - SC Department of Revenue. www.sctax.org.

- **Sales Tax Exemption -** for items you are going to sell - SC Department of Revenue - form. www.sctax.org

- **Federal Nonprofit Mailing Permit -** to qualify for lower rates on bulk mailing. Other options available.

- **Raffle Registration –** similar to Charitable registration. Required to hold raffles with prize more than $500.00.

Annual Filings

- **Tax Returns – Form 990**
  - Gross Receipts more than 200K – Form 990
    - http://www.irs.gov/pub/irs-pdf/f990.pdf
  - Gross Receipts less than 200K – Form 990EZ
    - http://www.irs.gov/pub/irs-pdf/f990ez.pdf
  - Gross Receipts less than 50K – Form 990N (e-postcard)
    - http://www.irs.gov/Charities-&-Non-Profits/Annual-Electronic-Filing-Requirement-for-Small-Exempt-Organizations-Form-990-N-(e-Postcard)
  - Must be filed with IRS, SCDOR, and SCSOS

- **Charitable Registration Form** – SCSOS - $50
  - www.scsos.com/public.charities

The Heavy Lifting Begins

Board of Directors

- It's the law.

- No one "owns" a nonprofit, not even the "Founder".

- 501(c)(3) nonprofits are corporations with **tax-exempt status**
  - don't pay corporate income tax – federal, state
  - donations are tax deductible to the donors

- BoardSource estimates **@ $30B a year in foregone taxes**

Board of Directors

- Minimum Board in SC is three (3) members. SCANPO recommends 5 to 9 members.

- The Board hires and fires the executive director

- Board members must fully understand their legal and financial responsibilities

- Consider skills and relationships need. Look for beyond friends and family for diversity and broad community support.

Board of Directors

The Board of Directors must clarify in writing the organization's:

Vision – e.g. "We envision future in which South Carolina's nonprofit sector has the knowledge, resources, public trust and legislative environment necessary for them to positively impact the lives of South Carolina residents."

Mission – e.g. "To serve, support, and strengthen nonprofits for a better South Carolina".

Core Values – e.g.:

Integrity – We promise to be accountable, transparent, fair, honest, and to take an integrated approach to our work.

Leadership – We strive to be a "thought leader," influencing the sector by providing knowledge, resources, guidance and exposure to innovative ideas and national trends.

Superior Service – We take pride in our work and in our service to our members, making sure their membership dollars are well invested.

Collaboration – We will lead through collaboration with our members and partners to enhance efficiency and effectiveness.

Bylaws

- Bylaws are the rules that govern the internal management of an organization and should be written by the organization's founders or directors, with legal counsel.

- Bylaws cover, at minimum:
  - how directors are elected
  - how meetings of directors are conducted
  - what officers the organization will have and their duties.

- Can use samples or borrow others but remember that what maybe appropriate for one might not be for yours.

Your Case for Support

One of the first steps in the planning process is to develop a case for support.

- A **case for support** is defined as follows: *the reasons why an organization both needs and merits philanthropic support, usually by outlining the organization's programs, current needs, and plans.*

  - http://nonprofit.about.com/od/fundraisingbasics/a/casestatement.htm

- A **business plan** *is a formal statement of business goals, the reasons they are believed attainable, and the plan for reaching those goals, including budgets and financial projections.*

  - *http://nonprofit.about.com/od/nonprofitbasics/f/busplan.htm*

Fundraising

- Potential sources:
  - Individual donors – **Largest Source of Revenue!**
  - Corporate donors
  - Government funding
  - Foundation grants
  - Special events
  - Earned Income
  - Other

Effective Management

- Set up strong systems – accounting, HR - payroll and filings, staffing, technology

- Create good financial policies that assure strong internal controls.

- Obtain sufficient insurance coverage – conduct a risk management assessment. D&O insurance is a must.

- Establish policies required by **IRS form 990** and procedures for how you will do business (i.e. conflict of interest, personnel).

Keys to Success

- Strong relationship between board and chief executive.
- Ongoing honest communication.
- Financial reporting.
- Full participation in fund raising activities.
- Board fulfills governing and fiduciary responsibilities.
- Communication with the community.
- Program evaluation.
- For additional keys to success, see SCANPO's ***Guiding Principles & Best Practices***
  - *http://www.scanpo.org/?GPBPthirdedition*

Helpful Resources

- IRS https://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations
- SC Secretary of State's Office www.scsos.com
- National Council of Nonprofits: www.councilofnonprofits.org/resources/how-start-nonprofit
- Nonprofit Management Library: http://managementhelp.org
- Board Source (membership organization) www.boardsource.org

Fundraising Resources

- Information on Funding Sources:
  - SC State Library
    - http://statelibrary.sc.gov/grant-and-funding-sources
  - SC Grantmakers Network
    - http://www.scgrantmakers.com/
  - Foundation Center
    - http://foundationcenter.org/
  - Federal grants
    - www.grants.gov
  - SCANPO's online links to Fundraising Resources
    - http://www.scanpo.org/building-the-knowledge-network/fundraising/
  - Association of Fundraising Professionals
    - http://www.afpcsc.net/

Good Reads

- The Board Member's Guide to Fund Raising, by Fisher Howe

- The Millionaire Next Door, by Thomas J. Stanley

- The Relentlessly Practical Guide to Raising Serious Money, by David Lansdowne

- Toxic Charity, by Robert Lupton

- Fired Up Fundraising: Turn Board Passion into Action, by Gail Perry

SCANPO is a **statewide membership organization** that supports its members and SC nonprofits by:

1. **Building the knowledge network**
2. **Promoting collaboration**
3. **Strengthening our collective voice**

We believe **well-managed and responsibly-governed nonprofits** help build strong, healthy communities.

We are **run by nonprofit leaders, for nonprofit leaders**.

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