



Starting a Nonprofit?

Questions to Consider

1. What are your personal goals for starting a nonprofit?
2. Have you ever served on a board of directors for a nonprofit?
3. Have you ever been employed by a nonprofit?
4. Have you ever volunteered for a nonprofit?
5. What is the nonprofit's mission? What services will it provide?
6. What other local nonprofit and government agencies have related missions?
7. Who are the other volunteer board members who will lead the organization?
8. Will the nonprofit seek donations of money or items (food, computers, etc.)?
9. Will the nonprofit seek grant funding to support its programs?
10. Will the nonprofit earn revenue from its services?

“Prior to forming a nonprofit, lawyers and their clients should consider the extremely competitive landscape. The vast majority of new nonprofits will fail, become dormant, or operate in financial distress.”

- American Bar Association

Advantages of Incorporating Your Nonprofit

- The nonprofit becomes a stand-alone organization, and more than a personal project.
- Incorporation gives some protection from personal liability. Many nonprofits still carry insurance.
- Income related to the mission will not be taxed.
- The organization will become *eligible* for grants. However, it may not be *competitive* for grants.

Not Good Reasons to Start a Nonprofit

- You have a short-term special project.
- You wish to support a needy individual.
- You want to be your own boss.
- You think a lot of grant money will be available.
- You want a more meaningful career for yourself.

Where Will We Get Money?

“During their early years, nonprofit organizations most frequently rely on the support of individuals who give their time and money to the cause. This is similar to small business start-ups, in which entrepreneurs often get funds from friends and relatives. Groups who found successful nonprofit organizations often work very hard during the early years for little or no financial compensation.”

- Nonprofit Resource Center

Helpful Websites

Ohio Guide to Starting a Nonprofit

<http://www.sos.state.oh.us/sos/upload/publications/busserv/Nonprofit.pdf>

Ohio Guide for Charity Board Members

<http://www.ohioattorneygeneral.gov/Files/Publications/Publications-for-NonProfits/Guide-for-Charity-Board-Members.aspx>

12-Step Online Tutorial from the Foundation Center

<http://foundationcenter.org/getstarted/tutorials/establish/>

Guidance from the National Council of Nonprofits

<https://www.councilofnonprofits.org/tools-resources/how-start-nonprofit>

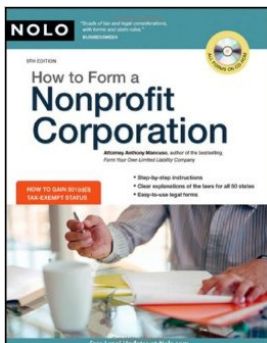
Law for Change: A hub for nonprofit legal advice

www.lawforchange.org

Legal Steps at a Glance

1. Recruit board members

No single person owns a nonprofit. Instead, nonprofits are governed by a board of trustees. Many nonprofits rely on board members to be hands-on volunteers *and* make a financial gift each year. Ohio law requires a minimum of three board members. Most nonprofits find that more people are needed to do the work. But too many people can be unmanageable.



We recommend: [How to Form a Nonprofit Corporation](#) by Anthony Mancuso
346.73064 H8471

2. Carefully write the “mission statement” or purpose of the organization

The stated purpose is the only purpose for which the corporation may legally operate.

3. Register your corporate name with the Ohio Secretary of State (\$50)

<http://www.sos.state.oh.us/sos/upload/business/forms/534A.pdf>

4. Establish by-laws

By-laws are the governing policies that the organization will follow, such as how many board members the organization will have, how often the board will meet, and how long board members can hold office.

5. Develop board policies and recordkeeping systems

Serving as a board member is a legal responsibility. Boards are responsible for protecting the mission and managing the nonprofit’s finances. Start out right with a good system for keeping your corporate records, such as minutes of board meetings, and a good accounting system.

6. Incorporate in Ohio by filing Articles of Incorporation with the Secretary of State (\$125)

After your nonprofit is established, it must file a “Statement of Continued Existence” every five years.

<http://www.sos.state.oh.us/sos/upload/business/forms/532b.pdf>

7. Get an Employee Identification Number (EIN)

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

8. Apply for tax-exempt, 501(c)(3) status with the IRS (\$400-\$850)

This decision can take several months to a year, but the majority of applications are approved by the IRS. Your organization has two options:

- Form 1023-EZ: This is a simple 2-page form. It is an option for most organizations with revenue under \$50,000.
- Form 1023: This is the traditional 26-page form. It requires much more planning details. But keep in mind, your Form 1023 will become a public document. Giving these details may demonstrate greater accountability.

After your nonprofit is established, it must report annually to the IRS using a Form 990 or 990-EZ.

<http://www.irs.gov/Charities-&-Non-Profits/Applying-for-Tax-Exempt-Status>

Other Steps to Consider

- Your nonprofit board may want to seek insurance coverage.
- Nonprofits that fundraise must register each year with the Ohio Attorney General (and any other states where you fundraise).
- If the nonprofit earns money, it may be subject to Unrelated Business Income Tax (UBIT).
- Your nonprofit may want to register its real estate as tax-exempt.
- Your nonprofit may want to file for a nonprofit postal permit.
- Certain nonprofit organizations may be required to obtain special licensing, such as a daycare license.

Is There Another Way?

Groups with annual gross revenue that is normally under \$5,000 – as long as the mission is charitable according to IRS guidelines – “**automatically qualify**” as 501(c)(3) organizations, without filing an application. Churches also automatically qualify. However, your organization will not have *proof* of nonprofit status.

Some groups choose to work under “the umbrella” of an existing nonprofit, called a “**fiscal sponsor.**” A fiscal sponsor is a partner willing to accept gifts and manage money on your behalf.

Questions? Need more detail? Examples or templates? Contact the Nonprofit Resource Specialist: (937) 496-8624

Prepared Jan 2015. This tip-sheet does not provide any legal advice.