

How do we become a nonprofit organization?

Forming a Nonprofit Organization: A Checklist

Every nonprofit organization must have a carefully developed structure and operating procedures in order to be effective at fulfilling its purpose. Good governance starts with helping the organization begin on a sound legal and financial footing in compliance with the numerous federal, state, and local requirements affecting nonprofits.

- Determine the purpose of the organization.** Every organization should have a written statement that expresses its reason for being. Resources: Board members, potential clients and constituents. □
- Form a board of directors.** The initial board will help translate the ideas behind the organization into reality through planning and fund-raising. As the organization matures, the nature and composition of its board will also change. □
- File articles of incorporation.** Not all nonprofits are incorporated. For those that do wish to incorporate, the requirements for forming and operating a nonprofit corporation are governed by state law. Resources: Your secretary of state or state attorney general's office. □
- Draft bylaws.** Bylaws — the operating rules of the organization--should be drafted and approved by the board early in the organization's development. Resources: An attorney experienced in nonprofit law. □
- Develop a strategic plan.** The strategic planning process helps you express a vision of the organization's potential. Outline the steps necessary to work toward that potential, and determine the staffing needed to implement the plan. Establish program and operational priorities for at least one year. Resources: Board members; planning and management consultant. □
- Develop a budget and resource development plan.** Financial oversight and resource development (e.g., fundraising, earned income, and membership) are critical board responsibilities. The resources needed to carry out the strategic plan must be described in a budget and financial plan. Resources: financial consultant. □
- Establish a record keeping system for the organization's official records.** Corporate documents, board meeting minutes, financial reports, and other official records must be preserved for the life of the organization. Resources: Your secretary of state or state attorney general's office. □
- Establish an accounting system.** Responsible stewardship of the organization's finances requires the establishment of an accounting system that meets both current and anticipated needs. Resources: Certified public accountant experienced in nonprofit accounting. □
- File for an Internal Revenue Service determination of federal tax exempt status.** Nonprofit corporations with charitable, educational, scientific, religious, or cultural purposes have tax exempt status under section 501(c)(3) – or sometimes section 501(c)(4) – of the Internal Revenue Code. To apply for recognition of tax exempt status, obtain form 1023 (application) and publication 557 (detailed instructions) from the local Internal Revenue Service office. The application is an important legal document, so it is advisable to seek the assistance of an experienced

attorney when preparing it. Resources: Your local IRS office, an attorney. □
File for state and local tax exemptions. In accordance with state, county, and municipal law, apply for exemption from income, sales, and property taxes. Resources: State, county, or municipal department of revenue. □

Meet the requirements of state, county, and municipal charitable solicitation laws. Many states and local jurisdictions regulate organizations that solicit funds within that state, county, or city. Usually compliance involves obtaining a permit or license and then filing an annual report and financial statement. Resources: state attorney general's office, state department of commerce, state or local department of revenue, or county or municipal clerk's office.

Other steps:

Obtain an employer identification number from the IRS
Register with the state unemployment insurance bureau
Apply for a nonprofit mailing permit from the US Postal Service
Obtain directors' and officers' liability insurance