

SETTING-UP A
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**Step by step guide
to setting-up
a non-profit organization**



Prepared by



Presented by

SETTING-UP A NON-PROFIT ORGANIZATION

Registration with Revenue Canada

In the case of a non-profit organization, 'registration' refers specifically to registration with Revenue Canada for income tax exemption. If your organization has no need for tax-exempt status-if it will not be accepting gifts and issuing official receipts for income tax purposes-then your organization does not need to register.

Qualifying for Registration

If your organization does need to register with Revenue Canada, first you'll need to demonstrate that your organization truly qualifies as a non-profit. There are two principle factors that disqualify your organization for registration.

The income of the organization may not personally benefit any proprietor, member, shareholder, trustee or settler of the organization. This does not prevent the organization from paying for services rendered.

Your organization may not espouse, promote, support or seek to achieve any political agenda, party, purpose or doctrine, nor may your organization seek to persuade the public to adopt a particular social view or attempt to bring about or oppose changes in the law or government policy.

Advantages of Registration

There are two basic advantages to being a registered non-profit organization. First, the organization will be able to issue receipts for gifts received. These receipts reduce the tax payable for the individual donor, or, in the case of a corporation, reduce the taxable income. The second benefit is that, upon registration, the organization is exempt from paying income tax.

Obligations of a Registered Charity

Of course, along with the benefits, there are requirements that a non-profit organization must meet in order to maintain its registration. First, the organization must donate its resources to charity. Second, it must continue to meet the requirements that qualified it in the first place. Third, a Registered Charity Information Return must be filed within six months of each year-end.

Finding Direction

A non-profit organization may have a few volunteers or it may have hundreds. Without a strong board of directors to steer the organization, their efforts will not be fully realized, and the aims of the organization may not be effectively met.

To allow your directors to run the organization effectively, they'll need to know what is expected of them. Without some sort of job description, directors will not be able to focus their efforts-and the efforts of others-toward specific goals.

Directors' Roles

In determining what you need from directors, it's a good idea to make a list of required skills and a list of current board members. By cross-referencing the lists, you can not only assign specific duties to existing board members, but also determine what holes need to be filled.

Another good idea is to consider having both an accountant and attorney on the board of directors. These sorts of professionals have specific knowledge that can be critical to your organization. Keep in mind, however, that while the advice and insight gained may be extremely helpful, conflicts of interest may prevent them from representing your organization in an official capacity.

Types of Charities

The Income Tax Act currently recognizes three types of charity: the charitable organization, the public foundation and the private foundation. The specific type of organization may also restrict who may or may not be a director depending on how the individuals are related through blood, adoption, marriage, common-law or close business ties.

In a private foundation, 50% or more of the directors may be related persons. In a public foundation or charitable organization, less than 50% of the directors may be related persons.

While it may seem like a good idea to have your friends and family sit on your board of directors, it may not be an option, and in any case, may not be the best thing for those you wish to help. Remember that your organization exists to help your community and the rules governing the structure of the board are in place to ensure that all registered non-profit organizations are working to that end.

A Non-Profit Business Plan

Your non-profit organization will need a well developed business plan to get it off the ground. In order to simply apply for registration you'll need to clearly state the objects of your organization. You must also be aware of and prepared to comply with all federal, provincial and municipal requirements. Furthermore, in order to be successful, you'll need to have a carefully developed structure, operating procedures and bylaws.

It may sound like a lot of work, but a business plan for a non-profit organization isn't that different from any other business plan. You simply need to describe why your organization is valuable, both to those who benefit from it, and to those who fund it.

Scope

It's important when envisioning the scope of your non-profit organization to have specific aims and goals in mind. If your mandate is "to help the poor", you're probably thinking too big. You need to carefully define the group who will benefit from your activities and how they'll benefit specifically. A better mandate may be "to feed the homeless and hungry within the municipality by establishing a soup kitchen and providing information and access to local missions and shelters".

Vision and Strategic Planning

Although you should always keep long-term goals in mind, you may find them taking a back seat to the struggles of day-to-day operation. If you persevere through the difficult early years, your organization will grow and things will calm down considerably.

Just because things stabilize doesn't mean you can relax. The danger now is not in failing outright, but in stagnating and losing touch with your community. Take the time to look carefully at what worked in the past and what failed. Use this information to develop a new, stronger plan that will help you help others even more in the future.

The Rules of Your Organization

Aside from having to obey the legal and financial regulations of your province and region, a non-profit organization needs its own internal constitution and bylaws. These rules, which must be decided on and approved by the board of directors, will govern all the operations of your organization.

The Scope of a Constitution

Aside from stating the purpose of your non-profit organization, a constitution also defines its structure. It establishes, among other things, the number of directors, the length of directorial terms and the powers and duties of the board. A constitution details all of the procedures for the organization, from how minutes are entered and distributed, to how votes are conducted. Further, a constitution needs to outline the procedure for making changes and amendments to the constitution itself.

A constitution can be fairly simple, or incredibly complex. In general, the larger your organization is, and the larger the geographical area it services, the more complicated your constitution will need to be. For a non-profit organization that you operate largely from home to the benefit of people in your immediate neighbourhood, your constitution may be only a single page in length. For a national organization, with directors serving regionally and flying across the country for annual meetings, you'll need a fairly lengthy constitution.

If your organization is incorporated, you'll not only have a board of directors for the organization, but officers for the corporation as well. The Articles of Incorporation will detail the roles of the directors, but the constitution must be drafted in full awareness of the relationship that exists between board members and officers.

Writing a Constitution and Bylaws

Even a simple constitution is an important legal document. With that in mind, it's probably a good idea to draft your constitution with the assistance of an attorney experienced in non-profit law. Furthermore, since it is not always easy to amend a constitution once it's approved, make sure that it not only serves the organization in the early stages, but that it will also be adequate when your organization expands.

Are You Covered?

Non-profit organizations have a lot of the same insurance needs as regular businesses. If you lease office space, for example, you'll need to consider renters insurance that covers theft and fire to protect any office equipment or furniture that the organization owns.

If you're using a vehicle for operations, make sure you have insurance that complies with the regulations of your province, especially if there will be multiple drivers.

Bond insurance should be considered if you have board members or volunteers working with money. You always hope that you can trust the people wanting to help, but sadly that's not always the case. If your project involves working directly with the public, you may need liability protection in the event that something unexpected or unfortunate happens.

Special Considerations

As a non-profit, there are a few other types of insurance that may be required.

If your organization uses volunteers, you should think about having them covered as part of your original liability agreement. This protects volunteers if they're negligent while performing duties and a client gets injured somehow.

If there are social workers involved in your operation, you'll need to get what is called Social Workers Professional Liability, which covers any unskilled or negligent act resulting in harm to a client.

It's essential for any kind of facility that has a clinic or other medical operation to get Medical Malpractice insurance to protect against a client's lawsuit in the event of any unfortunate incident. Nobody wants bad things to happen, but that's no excuse for being unprepared. Having the proper coverage can ensure that your good work can go on, even after an unfortunate event occurs.

Non-profit Structure

Non-profit organizations come in all shapes and sizes. A poetry group that gives free readings at a café once a month is just as much a non-profit organization as an international agency mandated to protect a certain species of wildlife.

There are, however, two main types of non-profit organization: those that are incorporated and registered as non-profit charitable organizations, and those that are not. If you are incorporated, your organization will probably function very much like any other corporation, and that means you need a formal structure.

Starting Structure

The structure that your organization has at the beginning will be determined by your Articles of Incorporation and your constitution. There will be corporate officers, a board of directors and a staff that reports to the board, or to an executive director appointed by the board.

Aside from the officers, the board and the staff, non-profits have one thing that most for-profit corporations do not: volunteers. In many ways, volunteers function as an extended staff. They are often assigned to the programs offered by your organization where they can most directly serve the people you're trying to help.

Organizational Theory

There are thousands of books and papers written on the topic of organizational theory and there is no one way to set up your organization. There are good ways and there are bad ways, with a huge grey area in between.

One of the key roles of the board of directors is to constantly analyze what is working and what is not. If you adopt an organizational structure that is not helping you meet your goals, you'll need to change it.

A good director will never be afraid to reassess the organizational structure and initiate changes. Some directors may even feel that changes need to be made periodically to structures that are working, just to keep things from growing stagnant. The point is, the ability to adapt and to continually strive for excellence can only be a benefit, both to the organization and to those it serves.

Getting to Know You

As a non-profit organization you have to market yourself to two different groups: the people who stand to benefit from the services that you're providing and the people who want to support those services. If you're sponsoring a hot meals program, you first need to let the people who need this service know how to contact you to obtain help. You also need to get the word out to the people in the community who would like to support your cause, either by volunteering their time or by donating money, building space, materials, etc.

Advertising

Word-of-mouth is the cheapest and easiest way to get information out to your target audience. Information will be spread quickly throughout the community to the people who can use it once people start talking about your organization. Putting up posters in designated areas with information about your organization or a specific event you're holding can work in much the same way.

Local advertising in the print media that circulates in the area where you're focusing your efforts can also be effective and fairly inexpensive. In some cases, a publication may provide this service to you organization free of charge. This is a good way to get across information to either the people you want to help, or to the people you would like help from. Make sure that you're prepared to advertise well in advance of any event you want publicized as it may be that an ad won't appear for some time after you've submitted it.

The Internet

You can also use the internet to advertise your organization. There are hundreds of websites already set up to help get non-profit project information out to the public. It may be that the people who will most benefit from your efforts do not have easy access to computers. Even so, there may be another organization that can pass your information on to those who might be interested.

If you have the means to create your own website, you can publish all of your goals, what programs you currently have and any events you'll be holding in the future. You can also use your site to set up a system through which interested parties can easily contact you and even make a financial contribution to help your cause.

Staff vs Volunteers

Many people are unable to help out a non-profit organization by donating money, but are willing to donate something just as important: their time. Finding people who will work for you for free isn't easy, but it's not impossible either. There are several internet sites devoted to matching volunteers with organizations. Although volunteers are an invaluable asset, there are limitations involved. Be aware that, since they aren't getting paid, they will determine when they're available, not the other way around.

Aside from volunteers, you will likely require at least a few paid staff. As with any business, hiring staff requires you to carefully decide which jobs you need done, interview prospective employees, and finally hire the best candidates. Be sure to comply with the Employment Standards Act and all other regulations governing employer/employee relations.

Volunteer Hours

Many volunteers aren't involved with your organization for strictly altruistic reasons. Some people are required by law or by their profession to record a certain number of volunteer hours. Others may be looking for experience in a field related to your organization, hoping to spruce up their resume. In these cases, you can expect that they will inform you of their circumstance, and you should be prepared to keep careful track of their hours and performance. Further, expect that many of them will leave once they've accumulated the hours they require. At the same time, these sorts of volunteers may turn out to be your best, especially since those looking to improve their resume or to gain valuable experience may want to use you as a reference when applying for a job in their field.

Paying Employees

In the case of paid employees, you'll require a payroll plan to keep track of employee hours, wages and salaries. You'll also need to make deductions from their pay cheques for income tax, employment insurance and federal pension plans. You also have to pay Worker's Compensation costs to protect your employees in the event that they are injured while on the job. Because of the many issues involved when you hire employees, it's probably a good idea that you outsource your payroll to a payroll company.

How Do You Receive Money?

As a non-profit organization, the majority of your funding, comes from small, individual contributions. These are people that you have reached who believe in what you're trying to do and want to support your cause. It's essential that you make it easy for them to contribute financially. If the process of donating is too arduous, they're less likely to help.

Have an Account

It's important to register your non-profit name. VanCity can start an account that's right for your organization. This will allow you to more easily budget the amount of money that comes in and goes out. Another benefit to having a separate account is that you can cash cheques made out to your organization, lending a sense of legitimacy.

You can also establish a merchant credit card account. Just contact the financial institution that services your business and tell them that you want to be able to receive credit card contributions. Once you have this option in place, it will make it very easy for people to contribute financially.

Making Contact

If you are approaching members of the community through a face-to-face campaign, they can simply make cash donations, or pay with personal cheques. It's easy for you and for them, and there are no service charges involved. If you're using a mail-out campaign, people will be able to pay with cheque or credit card.

Use the internet. There are many websites in existence designed to help people make charitable donations to non-profit organizations online. If you register with one of these companies, you can reach countless people that potentially want to help your project. If you create your own web page, people will have myriad options if they decide they want to contribute.

There are also websites that allow users to make monthly contributions, which are directly deducted from their pay cheques.

Look into all of your options. The easier you make it for people, the more likely they are to make a contribution to your cause.

The First Rule

The most important part of fundraising is to ask people for money. It may seem obvious, but a lot of people are shy, or can never seem to find the right time. Even members who donate large sums of money to the non-profit organization should let their friends, family and co-workers know what they're doing to help others, and then ask them if they would like to make a donation. Most people will not give money if they are not asked.

Who Do You Ask?

Board members should be first on your list. They're obviously interested in the goals of your program and they should show their support by making a substantial donation. The next group you should approach is the recipients of the service that your organization provides. The people that enjoy local theatre should support that theatre. Parents who benefit from an after-school daycare feel obliged to help out financially. Finally, ask people who have donated before. If they felt strongly enough about your work in the past, they likely still do.

How Do You Ask?

There are four major ways to ask for funding. The first is to mail out information about your programs to community members and ask them to support you. Be sure to include a self address, stamped envelope for their donations. The second is over the phone. This works best if they are follow-up calls that refer to information the people you are calling have already received. Cold calling is an annoyance. To get any really large contribution, it's necessary to speak face-to-face. This type of solicitation is most effective coming from board members who have made a sizable financial contribution themselves; this gives them credibility. In this day and age, another effective way of raising funds is over the internet. Having a website that includes a convenient way for interested parties to send in donations is an inexpensive tool for reaching a potentially huge audience.

When Do You Ask?

The obvious time to ask for donations is the end of the year. The holiday season has people in a charitable mood, and with tax season approaching they know they can use a sizable donation as a credit. This being said, it's important to keep fundraising year round. Most of the money given to charities each year comes from smaller donations made by people who just want to help.

Organization is the Key

Starting up a non-profit organization is the same as starting up a new business. The key to success is a solid original idea and a well thought out long-term plan; this is also the key to getting grants. The first thing you need to do is write up a business plan that answers the following questions: Do people need this new organization? Are there people who will support you? Where will you get the funding necessary to operate? Why are you the right person/people to do this project?

Once you have answered these questions, and put together figures for at least your first year, you're ready to begin.

Getting Grants

There are two major types of grants available to a non-profit organization. They are government grants and foundation grants, but the amount of money they contribute isn't as significant as people think. Foundation grants, for example, contribute less than 10% of all non-profit revenue. Grants can be a big help in starting, and continuing, a non-profit organization, but you can't rely on them as a major means of support.

There are two important things to achieve if you want to get a grant to start up a new organization. You must be filling a vital role by meeting a real need in the community targeted. Also, it's prerequisite to have the background and experience necessary to do the job. People must believe that you'll be successful before they'll grant you any money.

Budgeting

It's not enough to come up with an excellent business plan, get the grant money you need to start the organization and then sit back and relax. It's imperative that you put together a new budget at least once a year. First of all, your board of directors would be happy to see it, and it's always helpful for you to see how things are going so you can improve future operations. But most importantly, if you're applying for continuing grants, organizational budgets are a necessity. The people giving you the grants need to see that you're using the money to achieve what you set out to do.

Supporting Your Cause

You need the support of your community to start up a new non-profit organization and to keep that operation going. Whether you're a small local project or a huge, national non-profit, the support of people who want to help you is essential. Make it easy for your supporters to help you financially by getting a merchant credit card account.

How to Register

Talk to the financial institution that handles all of your non-profit organizations' funds and ask them about setting up a merchant credit card account. If they can't help you themselves, they will be able to guide you to an institution that can.

The Benefits

Once you have registered, you'll be able to receive charitable donations via credit card. This makes it easier for people who believe in what you're doing to contribute financially.

This is especially beneficial if you're operating on the internet. You can receive credit card donations on your own website, or use one of the many sites already in existence designed to make the transaction between non-profits and the public as simple as possible. Web providers can guarantee you secure credit card transactions so your potential contributors won't have to worry about their donations falling into the wrong hands.

Getting a merchant credit card account will make it easier for potential contributors to back you financially. It can really help your non-profit organization get the funding that it needs to achieve its goals.

Ending Your Non-Profit

There may come a time when you decide to close down your organization. It may be because of funding; you've tried every way imaginable to raise the funds necessary to operate but just can't get the support you need from the community. Maybe you just don't have the time to keep the organization going and you can't find anyone else to take over the responsibility of running things. It could also be that the service you originally provided is no longer necessary, and you find that there are less and less people using the service every week.

Be Sure

Don't decide to close your doors at the first sign of financial hardship. Just because one source of funding stops coming in, it doesn't mean that things are hopeless. Try to find a different source of income, explore new avenues. There may be a supply of money that you've overlooked.

Schedules change. You may start a new job that doesn't allow you the same amount of free time. Maybe you decide to start a family. In most instances, there will be more than enough people able to fill your shoes. There are, however, non-profits run by a very small group or even just one person. In that case, if someone simply no longer has the time, the non-profit may need to shut down. Whatever the case may be, try to do everything you can to find a replacement. If your cause was worth working for to begin with, it's more than likely still going to provide a valuable service that would be missed if gone.

Maybe your clientele base gets so low that you feel the assistance you provide is no longer needed by the community you're in. Perhaps your organization was so successful that the problems you originally set out to fix no longer exist. Congratulations on a job well done. It could also be a demographic change. If you provide meals for elderly people, but over time the community you work in changes to a young family neighbourhood, your service will no longer be as useful. But if you move your operation to a different part of the city, you could find yourself with a brand new, and very grateful, clientele.

In any instance, be sure that that you've explored all of your options before you stop providing what is probably a valuable service.