

NEIGHBORHOOD NETWORKS

Moderator: Michelle Higgs
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3 pm EDT

Operator: Thank you for standing by and welcome to the September Neighborhood Networks conference call. Today's call is being recorded.

At this time, I'd like to turn the conference over to Ms. Michele Higgs. Please go ahead, ma'am.

Michele Higgs: Thank you. Welcome everybody to the September Neighborhood Networks conference call. Did I say conference call? This is a Webinar. And look, it's September already, weren't we just welcoming May? Well, there's no point in lamenting the passing of summer. It will be back next year.

Today, we'll welcome the energizing freshness of fall with a look at a topic that centers often bring to Neighborhood Networks. Our presentation today is entitled, "Nonprofit Status, This is One Status Symbol You'll Want."

I must give you a few instructions before we start the call today.

To ask questions, you may type in your question. First, hit the Escape button on your keyboard to return your screen to normal view. Once you have done that, you'll see a toolbar at the top of your screen. Click on Q&A. Click inside the top box and type in your question. Then click on

Ask. You will be unable to ask another question until your first question has been answered by the presenters. You can return your desktop back to full screen once you've typed in your question and clicked Ask. Your question will be visible to the presenters, allowing you to continue viewing the presentation without the Q&A box blocking your view. Remember, you will be unable to ask another question until your first question has been answered.

Next, how to raise your hand? From the toolbar at the top of your screen, click on Q&A. On the upper right side of that box, you will see a hand icon. Then click on that icon to let us know that you have a question.

Finally, the operator can assist you. During the Q&A segment, the operator will open up the line for you to ask questions. This line will be open once again during the Q&A session.

Now, on to our call. When you review the funding opportunities on the Neighborhood Networks Web site, you'll notice that most of the funders provide their grants to eligible 501(c)(3) tax-exempt organizations. For this presentation, our speakers are prepared to help you understand the designation that the Internal Revenue Code has assigned to nonprofit tax-exempt organizations; and outline the benefit of attaining nonprofit standing. They'll describe for you the steps for obtaining and maintaining your nonprofit status. On top of that, we'll give you some links that will help you learn more.

Obtaining a 501(c)(3) takes time and energy, but it opens up many more opportunities for your centers. You will hear from our in-house gurus on the topic. That's Tracy McCracken and Alvis Montgomery; they're technical assistance coordinators for partnership and consortia development. They work closely with centers and consortia that are seeking to put a shine on their nonprofit status and increase their presence in the eyes of funders and grantmakers.

Alvis Montgomery has more than 12 years of experience as a trainer and curriculum designer for both profit and nonprofit organizations. Tracy has served as an executive director for a fair housing organization and is currently a member of the Alabama State Bar. That said, I must caution you that Tracy is not functioning on this call as counsel but will remind you periodically of the need to seek the counsel of an attorney for certain steps in this process.

Before we get on with our presentation, let me tell you about the 10 centers that have joined the ranks of Neighborhood Networks this month. Please join me in welcoming Chippenham Place Neighborhood Networks Center in Richmond, Virginia; Lantana Square Community Learning Center in Corpus Christi, Texas; The Oaks Neighborhood Networks Center in Gary, West Virginia; Tamarac Pines Neighborhood Networks Center in Spring, Texas; Mounting Horizons Community Center at Branch Village in Houston, Texas; Copley Terrace Neighborhood Networks Center in Morrisville, Vermont; Washington Columbia Apartments Neighborhood Networks Center in Boston, Massachusetts; Gardens of Greenbriar Neighborhood Networks Center in Indianapolis, Indiana; Fountain Place Neighborhood Networks Center in Connersville, Indiana; and W. Leo Daniels Towers Neighborhood Networks Center in Houston, Texas. Congratulations to all of you.

Now, how are centers helped by carrying the IRS designation 501(c)(3)? What does it mean for their status? What do they have to do? Today, we're going to walk callers through the process and the challenges of having such a designation. We'll start off with Tracy. Tracy, would you fill in our listeners on the process of securing a 501(c)(3), please?

Tracy McCracken: Thank you, Michele. First, we'll define a nonprofit organization. It is an organization that is not created for the financial gain of its owners. This organization usually has a mission and is working towards some charitable purpose. Now, let's look at the 501(c)(3) process. First, you must reserve the organization's name in the state where it is located. Just as you would place your child's name on a birth certificate, you reserve a name for your organization with your

Secretary of State. It ensures that you are not using the same name as another business in your area.

Next, you create a board of directors. These are the people who guide your organization and help it grow. They create by-laws and the strategic plan. They also determine the mission of the organization and its vision. Next, you file Articles of Incorporation in your state, which creates your official nonprofit corporation. Every state has its own way of doing this. We are now going to a Web site that will give you information on the cost of this action and how long it should take to file your Articles of Incorporation.

We'll select Alabama, my home state, from this map of the United States, and you'll see Alabama requires about two weeks to file for Articles of Incorporation and it usually costs \$20. There are no provisions for an expedited Articles of Incorporation in this state. However, I'm going to caution you to talk to your local attorney because in certain states, you can quickly file to incorporate and you want to ensure that the fees are correct in the state in which you are located.

Michele Higgs: May I ask one quick question, Tracy?

Tracy McCracken: Sure.

Michele Higgs: When we're looking at this information on filing the Articles of Incorporation, I know there's another step in which an organization would need to speak with the Secretary of State for their organization. Is this the same process?

Tracy McCracken: Yes, it is. This allows you to create this corporation, which the state will consider a legal person, which means it will function in that state just as a person would. It creates a business, and just like a for-profit organization would also incorporate, your nonprofit should incorporate.

The next step is to draft bylaws to govern your organization. Just as a county or state government has laws, these are the laws you use to govern your non-profit. They can include who can be involved in the organization and when to hold board elections.

The next step is to develop a record-keeping system. All meetings should have a list of who attended and notes, usually called minutes, of those meetings, which will describe what you accomplished. You also need to have a way to track any inventory, which the organization owns, as well as any donations received.

Another key step is to create an accounting system and processes. All nonprofits need an accounting system. The accounting system allows the nonprofit to track the income that has come in and how it is spent. It helps to show the organization's charitable work.

The next step is to apply for a Federal Employer Identification Number (EIN). You can acquire this number from the IRS Web site. You can type in the initials EIN and hit Enter and it will explain the Employer Identification Number. Consider the EIN as the social security number for your organization. This is the number the IRS uses to track donations to the organization and for the organization to file its tax returns. You can apply online to obtain the number.

Next is to actually file for your 501(c)(3) federal tax-exempt status. You can also do that on the IRS Web site by typing in the number of that application form, which is a 1023. This is the form the IRS expects everyone to submit to obtain tax-exempt status. This allows donations to your organization to be tax write-offs for the donors. It costs approximately \$300 for organizations with little income and \$750 for those with \$10,000 or more in income. It is worth the outlay considering the income it can generate. You should know that the fees are going up. Starting in January of 2010, the cost of processing this form will rise to \$400 for smaller groups, and \$850 for groups with income of \$10,000 or more. Also, in 2010, the IRS will institute what it's calling Cyber

Assistant. That will allow you to actually apply online for your 501(c)(3) status to make sure an accurate accounting goes in and the cost of filing should drop at that point.

After you apply for your federal tax-exempt status, you want to be sure to file for your state and local tax exemptions. The 501(c)(3) status does not automatically allow for state and local tax exemption, which allows for exemption from sales taxes in your state.

The next step is to make sure you follow federal and state laws on charitable solicitations. Many states have such laws but each state's law is different. Some prohibit an organization from receiving money with the group raising the money for the organization without a signed agreement in advance. This is another time where you want to check with your local attorney about the laws in your state governing soliciting charitable donations.

The next step, which isn't required but is very important, is to, apply for a nonprofit mailing permit for bulk mailings. This saves money on your postage. Instead of paying 44 cents for each of the 500 marketing brochures you send out, you will pay a significantly lower amount.

Michele Higgs: OK, Tracy. I have a couple of questions that have come out of your presentation.

Tracy McCracken: OK.

Michele Higgs: Number one, when you were mentioning the board of directors, it sounds like they have a very important job to do. Where do those folks come from usually?

Tracy McCracken: The board of directors can be people you know in different areas. You're looking for a group of diverse people with different skills. You want to ensure that you're talking to people who will help your organization grow. Some organizations advertise for them, some talk to people they know, and usually they try to bring different perspectives to a board.

Michele Higgs: OK. And two, you mentioned the need for good recordkeeping. Is the secretary of the board the person who's responsible for recordkeeping?

Tracy McCracken: Yes. Usually it does fall to the secretary to keep such records. With some of our consortia, we have secretary/treasurers who keep both the financial records and the meeting minutes. Others have the two offices as separate; the secretary keeps the minutes and the attendance of the meeting and the treasurer keeps the financial records.

Michele Higgs: Finally, are centers set for life after they obtain their 501(c)(3)? What's next?

Tracy McCracken: Well, you have to do a little maintenance, which we'll include in our discussion about the advantages and disadvantages of having 501(c)(3) status. We'll start off with the advantages. The first advantage is nonprofits do not pay taxes on purchases related to the business. As mentioned before, having the tax-exempt status keeps you from having to pay sales taxes. So, when you shop at Staples or Costco to get supplies, it's much cheaper.

The next advantage is that organizations with nonprofit status are more likely to receive donations. This is a major benefit for donors. If a donor has to choose between an organization with tax-exempt status and one without it, the donor will usually choose the one with the status as this gives the donor the tax write-off.

Another advantage is that nonprofits may be eligible to apply for public and private funding. Most foundations and grantors will provide funding only to tax-exempt organizations. Many of these include the funding opportunities on our Neighborhood Networks Web site.

Next, staff members of the nonprofit are protected from personal liability. Since the organization is a corporation, staff members are protected from liability just as the staff of a for-profit organization are protected.

Finally, nonprofits can take advantage of free advertising with the use of public service announcements (PSAs). Usually television and radio stations are required to donate a portion of their time to advertise the events or missions of nonprofit organizations. You can use PSAs to create buzz and initiate great awareness about your organization.

As mentioned earlier, nonprofits are eligible for special postage rates. You really want to keep that in mind when you mail out advertising.

Nonprofits may be eligible for property tax exemption. Nonprofits can own real property. Therefore, they receive special tax rates to cover their property taxes payable to their local municipality. And, there are substantial free resources to help advise nonprofits and board management. Specifically, the Council for Non-profits and the Foundation Center are great assets and will offer services either at discounted or no cost for tax-exempt organizations.

But, there are a few cons. Nonprofits cannot participate in partisan political activities. There are exemptions, however, such as hosting a political forum that allows all candidates to speak.

Assets cannot be divided among directors or employees, if the organization dissolves. The board of directors and employees cannot divide what an organization owns among them if the nonprofit dissolves. All inventory and assets must move to a new organization with a similar mission.

Next, members of the board do not get paid, generally. For most nonprofits, these are volunteer positions. However, they're usually a rewarding one and a great addition to a resume;

highlighting such activities as dealing with financial records and providing supervision and oversight.

There are fees and paperwork. Admittedly, there are quite a few fees and paperwork when dealing with a nonprofit, such as the fee to file for the tax-exempt status and Articles of Incorporation. Also, nonprofits must keep minutes of their meetings and update their by-laws regularly to ensure they are still following certain regulations, which brings us to the next step.

Nonprofits must keep up with any changes in state and federal regulations. Usually one of these is filing an annual report. The necessity for this report also depends on your state, so check with your local attorney. The other is filing tax returns. You may not have to pay any taxes as a nonprofit but you are required to file tax returns to for federal and state and your local municipality.

Next, to establish a nonprofit, all board of directors members must be identified and provide oversight. A board is required to provide oversight to the organization, making decisions on programming and allocation of funds. For a nonprofit, profit options are limited. Basically, a nonprofit can show a profit at the end of a fiscal year but it must be carried over into programming for the following year and cannot be divided among the board of directors.

Michele Higgs: All right. I hope you are all taking notes because there's a lot of good information coming out of this call. And, Tracy, now that you've shown us the pros and cons for a nonprofit organization, we want to know how to get in and stay in the game. So, Alvis, can you help our callers determine whether they're ready to take the plunge?

Alvis Montgomery: I sure can. Thank you, Michele. Are we ready? This is an important question to ask an individual or an organization contemplating starting up a nonprofit. The answer requires some self and organizational assessment.

First and foremost though, a nonprofit is a business just like a for-profit. So you want to ask yourself, are you the kind of person who can get a business started and keep it going? Can you toil long hours into the night? Have you had previous experience starting a business on your own or at least helping someone else start his or hers? It can be a long, arduous process. Are you willing to commit to that process? Have you worked for a business or taken any fundamental business courses? Those are important questions to consider when you're contemplating starting up a nonprofit business.

Then you might want to ask yourself, do you want a nonprofit so badly that you'll keep working not knowing how much money you'll end up with? Keep in mind businesses generally are not profitable for the first several years. So does your livelihood depend on your success?

How committed are you to the mission and vision? Do you even have a mission and vision? When you're thinking about starting up a nonprofit, you want to know where you're going and how you're going to get there and you want to be able to project out a few years. So do you have the time to commit to that vision?

Have you worked for someone else as a supervisor or a manager if that's the role that you're going to be in once you start your nonprofit? Do you know how to delegate but not alienate? Do you know how to establish rapport and how to get buy-in to the mission and the vision and your management style? Are you willing to do the grunt work along with your employees? Most importantly, are you willing to have the buck stop with you?

Do you know how much money you will need to get your nonprofit started? Your budget should reflect things like whether you will be renting or purchasing your office space. What equipment will you need? How much will you need for staffing? Just as an aside -- there are many

organizations that will make equipment available at little or cost no cost to 501(c)(3) nonprofits; however, until you receive such a designation you will have to cover those costs on your own.

Do you have a marketing plan and do you have a budget to cover that plan? How are people going to know that you're in business, if you don't do marketing and outreach? So that's something you also want to put into your budget.

If you need a partner with money or expertise, do you know someone who will fit in, someone that you can get along with? Many may have had a similar experience but relating to someone as a friend or family member is very different from relating to someone as a business partner or colleague. Money and vision can change the dynamics. So you really want to put some thought into who you select as a partner or as an adviser.

If you don't know each other's work ethic or values and you've established a partnership, it maybe during the course of that partnership that you realize things are going to work and the project can be derailed. So you really want to put a lot of thought into who you bring onboard as a partner or advisor.

Those are some questions to think about as an individual contemplating a nonprofit start-up.

If you're an organization, there are questions you should ask prior to the endeavor, as well. Have you found out whether nonprofits with a mission such as yours are doing well in your community and in the rest of the country? Market research is so important when starting a business of any kind. It's important to know if there are other organizations offering the same services so that you can avoid duplication of services. Or, if you are going in to offer the same service, determine that there is enough of a population to utilize the services. Then think about whether it makes sense for the services that you're offering.

Have you learned to prepare financial statements? Have you worked out a record-keeping system to keep track of your income, expenses, and donations? Do you have an affinity for numbers? A lot of people don't like number crunching. So you might want to find someone who does, one who has a natural affinity for that. If you don't have someone who can assist you in that area, there's software that you can learn. So you might want to take into consideration your learning curve for that software so that you know it in time for you to receive donations.

Next think about how you manage your own personal budget. If you can manage your own personal budget then you're probably in good shape, but you want to be able to do that before you determine that you're going to manage the budget of an entire organization.

Do you have an idea of the cost of equipment and supplies? As we discussed earlier, until you receive your designation of 501(c)(3), you're going to have to incur those costs on your own. If you're an organization already; you might have some of the equipment already and will less likely have to make large purchases. But if you do, think about purchasing in bulk because often, whether you have the designation or not, you will get a discount for equipment if you purchase in bulk.

Finally, do you know what licenses and permits you'll need? Think about the type of nonprofit you're starting. Say, for instance, it's a daycare at one of your center sites. Do you have the proper permits and licensing to offer daycare? Do you know the number of children that you're allowed to keep and for how long? What if you want to provide a food type service? Do you have your permits from the health department? Make sure you check with your local offices that issue permits and licensing and check out the various ordinances.

So, if you find that you checked mostly "yes", it sounds like you put a lot of preparation in and are well informed to further investigate the 501(c)(3) process. If your answers are mostly "No", you may need to prepare more and research the answers so that you can succeed.

If you'd like an in-depth analysis, such as this one, where you can ask really important questions, visit the United Way of Greater Houston Web site, which has a very detailed assessment for both you and your organization.

As you can see, it really gets into the nuts and bolts of startups. It gives you a reality check because sometimes nonprofits are altruistic and people get excited about wanting to help. However, sometimes helping can be a more arduous process than we anticipated.

Michele Higgs: OK. Well, thank you so much for that look into what it takes. Now, once a group has a handle on what it can and wants to do, when the organization actually becomes a nonprofit, how can its members find out what the inquiring donors want to know? In other words, what they have to become for donors to look at them positively?

Alvis Montgomery: That's a great question, Michele, because that's one piece that we want to emphasize. There is a perception of nonprofits that has to be adhered to. So once you have your 501(c)(3) status, potential donors will be assessing you as well. You should be able to answer the following questions to assure them that the money they're donating will be used as they intended it.

For instance, does the organization accept forms of payment other than cash? If you ask someone to make a donation and he or she says they'll write you a check so that they have a copy for the record, and you say, "We only accept cash" it might send up a red flag. Or if you say, "OK, I'll take a check but make it out to me" that might make them uneasy. As a nonprofit, you should accept checks, credit cards, and online payments. Plus, you should provide a receipt for the donation.

Does the organization use meaningless or confusing terms to sound official? If you were to say, "We are a tax-exempt organization with an EIN number", that sounds really good, but it means nothing for the donor. Every business should have an EIN number. Even if you are tax exempt, it does not mean that their donation to your nonprofit is tax deductible; the benefit to them is that their donation is tax deductible.

Does the organization have written information available and on-demand? It's a good idea to have marketing materials about your organization with your mission and vision and the type of projects that you work on or would like to fund. Additionally, you should be able to provide proof that you have a nonprofit designation. One way donors can check your 501(c)(3) status is to go to GuideStar. GuideStar is online and it's a great tool. By entering the name of an organization, GuideStar tells you whether the organization has 501(c)(3) status and other information.

Tracy McCracken: GuideStar is a Web site that many people use to discern the legitimacy of an organization that is receiving their donations. As you can see at the bottom of the screen, the site conducts a search to see if the name of your organization comes up, and to determine whether an organization has its designation from the IRS. Some of the information is provided by the organization; however, most of it comes from the IRS.

Alvis Montgomery: And, it's free.

Alvis Montgomery: To continue with what donors want to know, if donations are local; can donors see, hear, and speak with the recipients? If you are raising money for a playground at a local park, can you show the location and the need for it, if necessary? If you've already done projects, do you have proof of where the money went? If donors can speak with the recipients, that's even better.

Does the organization have the capacity or infrastructure to use the money for its intended purpose? We all know that during natural and unnatural disasters, people want to help victims. If you say that you're going to get food to victims, make sure that you have the capacity to do so. Do you have a warehouse to store the food? Do you have trucks to haul the food? Do you have permission to enter the area? When accepting donations, there are many, many infrastructure-type questions that you need to make sure that you can fulfill. These are just a few of the questions that you need to ask yourself because donors will be asking you as well. If you would like a more in-depth list of questions that donors might ask, visit the Federal Trade Commission's Web site.

Michelle Higgs: And that takes us to a page that I'm going to leave up here for you. This will give you a list of all of the sites that we've used today, in addition to some extra sites that we may not have pulled out there for you; the Federal Trade Commission is among them.

Operator: At this time if you have a question, press the star key followed by the digit 1 on your touchtone telephone. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that's star 1 if you have a question. We'll pause for a moment.

Michele Higgs: (A typed in question from the Web) Where can you find an attorney that will provide pro bono legal services and consultations to assist with the legal paper work for filing for nonprofit status?

Tracy McCracken: Actually, you can visit the American Bar Association. The association provides a list of attorneys and firms that provide pro bono legal services in your area. Usually they are more than happy to help you file for your tax-exempt status and can guide you through the 501(c)(3) process.

Michele Higgs: Thanks for your question

Tracy McCracken: I'll just add quickly that you can go to sites like nolo.com that also provide assistance with paper work and legal advice.

Michele Higgs: Nolo is on the link list.

Operator: As a reminder that is star 1, if you have a question.

Sonia Manners: How will I copy the slide show for notes or reference? I know that there will be a transcript.

Michele Higgs: Sonia, I have also checked into whether the slides will be available. I will get back to you with details.

Tracy McCracken: We have a question submitted from Kurt. Can you discuss acting like a nonprofit until the center attains its status?

Alvis Montgomery: That's a great question, Kurt. We talked a little bit about how nonprofits are perceived. While you're in the process of becoming a nonprofit, you want to act as a nonprofit or as a business in general. You want to have a lot of professionalism, helping your clients and partners and associates understand your mission, your vision, and how you plan to carry them out.

If it comes to a funding issue and your application is in process you are allowed to say that you are pending; however, if your application is denied, then there may be repercussions for anyone who has funded you under the assumption that they could write it off later. So, you want to think

about that when you make that statement. Tracy, do you have any other advice for acting like a nonprofit?

Tracy McCracken: Well, when I'm talking to them about nonprofit status, the only difference between a nonprofit and a for-profit is that you are not creating this business for financial gain. So, just as most for-profits start out with what they want to do and how they're going to make money, you should be thinking that same way with your nonprofit. The only difference is until you officially get your status, you're still not quite sure how to handle it.

When you apply, you can give your EIN number to anybody who is donating to you and say that you are pending approval for your nonprofit status, which helps them with their tax write off information.

Otherwise, it's basically the same as running a for-profit business. You want to act like a business from the very beginning.

Michele Higgs: Great. Thanks, Tracy.

Operator: There are no questions in the cue at this time.

Michele Higgs: OK. We had quite a few on the video line.

Tracy McCracken: Right. We did have a question submitted to us. Is there a Web site that I can find a sample of Articles of Incorporation or sample board member descriptions? Actually, there are many Web sites out there and we have them as well.

Visit nolo.com. It gives information on board member descriptions, as well as sample Articles of Incorporation, and U.S. legal forms. For those who are in Neighborhood Network centers or consortia call the technical assistance line after this Webinar and we can help you with it.

Alvis Montgomery: In fact, Tracy, if I could just add real quickly, we will soon conduct nominations for onsite technical assistance. There, we go into detail about board recruitment, board development, organizational development and more of the 501(c)(3) process. So make sure you're getting your applications ready.

Tracy McCracken: We can even help you with your by-laws, if you're interested.

Michele Higgs: That's wonderful. Now what I wanted to ask Tracy and Alvis, while we still have some time, I wanted to know if there are any other tidbits that you'd like to add to the presentation. I have another question; is it a myth that tax-exempt organizations are not permitted to make a profit? Either of you can take that one.

Tracy McCracken: Well, it is a myth. Tax-exempt, nonprofit organizations are permitted to make a profit. The difference is they cannot divide that profit among the members. They must put it towards the mission or some purpose for the organization (any time of the year), but nonprofits really want to make a profit. The idea is to know where your money is going to be for the coming year. When we talk to our consortia, we tell them not to look at this as a short-term opportunity.

You're looking at creating an organization that grows and flourishes through the years. One of the main things is make a profit and put money in the bank, so as expenses come up, you can pay for them. So it's not at all a problem for a nonprofit to make a profit.

Michele Higgs: OK. Now, my other question is does every nonprofit organization qualify as a tax-exempt organization?

Tracy McCracken: No. Not every nonprofit qualifies as a tax-exempt organization. You must apply for tax-exempt status separately after creating your nonprofit. A nonprofit organization is a state concept; federal tax-exempt status is one that must be applied for. Usually the only organizations that automatically obtain that distinction are churches and their affiliates. For everyone else, you must file under the 501(c)(3) code with the IRS to receive tax-exempt status.

Michele Higgs: Now, this one is sort of a test. I think we've talked about it during the presentation. Let's see if people remember. When soliciting donation, is it best to tell the potential donor that their deduction is tax-exempt or tax deductible?

Alvis Montgomery: They definitely are going to be concerned as to whether they can deduct the donation from their taxes at the end of the year. So, it's much more of an enticement for them to donate if you can say that their donation to your organization is tax deductible.

Michele Higgs: Is it a myth or a fact that nonprofit and not-for-profit mean the same thing?

Alvis Montgomery: Well, it's a little bit of a myth. Nonprofit and not-for-profit are used interchangeably, and most people know what you mean when you say it's a not-for-profit business or it's a nonprofit business. However, there is some settled distinction.

Not-for-profit refers to an activity; for example, a hobby like fishing or how you like fishing. Nonprofit refers to an organization established for purposes other than profit making. I do want to note here that nonprofit doesn't always mean charitable either.

So, for example, a nonprofit organization can be an association of people who like fishing. So that activity does not have to be not-for-profit. While we sometimes use them interchangeably for Neighborhood Networks, of course, we mean non-profit status.

Tracy McCracken: You will also find a lot of states use the terms interchangeably. One state will use the term nonprofit corporation. In another state it will be called a not-for-profit corporation. It just depends on the state.

Michele Higgs: I see.

Alvis Montgomery: Of course, you can start a business and if it's not successful, you had non profitability that year.

Tracy McCracken: That's not what you're looking for.

Michele Higgs: Not at all what you're looking for. There's another question I have. This name is not one that's going to be on everybody's lips but who is Peter B. Lewis?

Alvis Montgomery: Peter B. Lewis. Well you know Michelle, I was taking a look at The Chronicle of Philanthropy's Web site and it lists America's most generous donors, top 60 most generous donors for 2006 and Peter B. Lewis is listed as number 23. He appeared more times than anyone else. He has been on the list nine times as a donor. And I bring that up because our callers may want to look at the list and see if there are any donors that have Web sites and foundations with which they can link, to determine whether their nonprofits may be eligible for funding.

The Chronicle is also a great source for keeping apprised of what's going on in the philanthropic world. That's why we have the Chronicle of Philanthropy listed on our Web site link.

Michele Higgs: So it's a site to visit to see who is donating what and how it might relate to your own organization.

Alvis Montgomery: Right. You have the list of the top donors. You can also find new rules and regulations, lots of grants funding and other funding opportunities. This is a really good site for nonprofits.

Michele Higgs: Another question.

Tracy McCracken: Yes. Another question has come in. For an organization's board, what type of positions should be filled? Where can I find board members? I think it is better that a board is diverse. I think the board should have an accountant. I also talk to people who are interested in the mission of the organization to see if they're an accountant at the organizations that are interested in sitting on the board. I also like to have an attorney on the board. It's an easy way to get some quick answers for legal questions that arise.

I am always very interested in having people who ran other businesses sitting on the board because they have access to resources such as the Chamber of Commerce, government officials that you may not know yet. As you're starting out your nonprofit, these businesspeople can introduce you to those resources.

The main thing I like to do is tell people what I'm passionate about. You'll find most people who start a nonprofit are very passionate. So generally, as you're talking to people, you'll find others that match your passion. Those people are usually a good fit for your nonprofit's board of directors.

Michele Higgs: Basically, find the folks that are on the same page as you.

Tracy McCracken: Yes. You'll find that will drive them to work hard, as hard as you want to work for your nonprofit.

Michele Higgs: What I'm going to do really quickly is see if we have someone else on the line?

Operator: Yes. We have a question from Tracie Godfrey.

Tracie Godfrey: Hello, everyone. I have a question regarding accounting systems. You mentioned earlier that nonprofits should have an accounting system to tracks dollars coming into the centers. Where would you suggest that directors go to obtain training in accounting systems so they are ready when it comes time to preparing the financial documents?

Alvis Montgomery: Well, I would suggest taking an overall accounting course. A lot of those can be obtained at a nice price at your community college or you can take an online course to start. If they are to use software, there's a variety of software on the market today; Quicken, Notes, and others, that they can purchase for their system.

Tracy McCracken: Also, you're going to need to learn budgeting. We had an Interactive Virtual Learning Course that covered budgeting, which would be a great way to start looking at your nonprofit and give you an idea of what you need moving forward.

Michele Higgs: And it was free.

Alvis Montgomery: And archived.

Tracy McCracken: We received another question. At what point in the filing process should an organization seek legal aid or advice?

My usual rule is to talk to an attorney about how to start. Filing the 501(c)(3) application with the IRS can take a little time. You'll want to know from the beginning whether you're approaching it

correctly; the same thing with the Articles of Incorporation. Many of them can be done online but you want to make sure you are submitting the correct information. Your local counsel can advise whether you're approaching it correctly.

Michele Higgs: That brings up the question from me, Tracy; generally, how long is this process?

Tracy McCracken: It usually takes about 27 months to obtain your 501(c)(3) status. It usually takes a very short time to get your articles of incorporation and become incorporated. It's very quick to get your Employer Identification Number. Once you file for your letter of determination from the IRS that you are 501(c)(3) tax exempt, you can write and tell people that you have filed, and that you are pending approval. This will help you through those 27 months while you're waiting for the official letter of determination to come in from the IRS. The agency hopes the Cyber Assistant will speed up the process, but Cyber Assistant won't be out until sometime in 2010.

Michele Higgs: So when we say that it takes time and energy, we mean it takes time and energy.

Alvis Montgomery: And a very committed board.

Michele Higgs: This is terrific. Can you see if we have any more callers?

Operator: We do have a follow-up question from Tracie Godfrey.

Tracie Godfrey: Hello, again. I had a question relating to options for obtaining additional funds. Are there other ways besides fundraising and obtaining grants for nonprofits to obtain money? For example, can nonprofits participate in investing in stocks or mutual funds or an interest-bearing checking account to generate additional funding?

Tracy McCracken: Usually private foundations will use stock investment, then take that money and donate it to other charitable organizations. If they're applying as a public charity, they have to prove that that money is coming from the public. So, they can't necessarily rely just on investing in stocks although there are organizations that do that. They also collect membership fees. There is a National Fair Housing Alliance that levies fees be a member. It has 501(c)(3) status.

Alvis Montgomery: Additionally, you will find a lot of nonprofits have a side business. So it is like a hospital. They may have a card and flower shop in which those proceeds go back to the hospital or if it's a WMCA, they might sell gym memberships. So you might want to look at a side venture that you could have to help raise funds.

Michele Higgs: OK. It sounds good. We're coming close to the end so we're going to take one more question. Tracy, do you want to take the last one?

Tracy McCracken: OK. We have a question from Sonya Manners. What if you get donations while you wait on the status and you don't get your status approved? How would you handle these donations?

For that, a lot of it may depend on the reason you're not approved. Some of it could be an incorrect answer on your 1023 form, which you could correct to obtain your status. For others, there could be another reason why you're completely rejected. In many cases, because the donations were made and written off in years passed, it would be up to the IRS to determine whether or not that donor would have to pay taxes on those donations or whether or not you would have to do something as an organization.

Michele Higgs: Great. Thank you so much. There's one more question.

Tracy McCracken: Can you discuss a little bit about how to leverage your tax-exempt status at local stores, for smaller donations or to start a microenterprise?

Michele Higgs: That's an interesting one.

Tracy McCracken: You will find, especially if you're talking to your local stores that sometimes they are looking for a tax write-off depending on what's been going on with them this year. They may also like to give an in-kind donation, where they will give you the materials, instead of having you buy it at discount. They will give you a box of paper; some pens, something they can show that they've done for you since they can't give you cash. Organizations take whatever money comes in the door, so smaller donations are fine. It's better to get 100 people who can give you \$10 each than to get one person who can give you \$50. That is the way I look at leveraging taxes and statuses. It's just talking to people about what we're doing and what is going on.

Alvis Montgomery: Another way to leverage your status is when you're approaching potential partners; you have Neighborhood Networks behind you. You have a nationwide network behind you, and you're giving their business national exposure. That may be a way to get their services for free. So they're getting valuable marketing exposure and you're getting their services.

Michele Higgs: Well, ladies as I've said, we went right up to 4:00 and I have one little definition that we have here to benefit an earlier question. That is the example of charitable, and there's a list of them, which I'll read to you really quickly, and I then think we should close.

Examples of charitable would be relief of the poor, distressed or underprivileged, lessening the burdens of government, the advancement of religion, direction of maintenance of public buildings or monuments, advancement of education and science, elimination of prejudice and discrimination, defense of human and civil rights, lessening neighborhood tensions, and combating community deterioration and juvenile delinquency.

Once again, these are the definitions of charitable. With that in mind, I think we'll finish. We received a number of questions online and a number of questions by phone. I want to thank our speakers, Alvis Montgomery and Tracy McCracken. This has been a lively, informative call for our participants. I want to let you know that it's still possible to submit your photographs from Neighborhood Networks Week and you can send them to our online scrapbook at www.neighborhoodnetworks.org. Watch your e-mail for the topic of our October call.

I want to thank Tracy and Alvis again for sharing this opportunity with such creativity and style. Take good care.

Alvis Montgomery: Wow. Thank you.

Tracy McCracken: Talk to you next time.

Operator: This does conclude today's conference call. Thank you for your participation.

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