

Your Guide to Starting a Not-For-Profit

This guide has been prepared by Volunteer Manitoba to help you with the process of starting a not-for-profit in Manitoba.

If you have not already done so, we recommend you review our resource [Should I Start a Not-For-Profit?](#) before reading this guide.

Introduction

A not-for-profit is different from a for-profit business. Simply put, a for-profit business uses profits to financially benefit the owners. A not-for profit's goal is to help individuals, groups or causes by re-investing profits into the work of the organization to achieve its mission. Keep in mind that if your organization is truly **non**-profit, it would not be in existence for long. This is why we prefer the term **not-for-profit**. Making a profit is ok; it is the purpose for which the profit is used that is different.

Another key difference between for-profit and not-for-profit is the environment within which they operate. For-profits operate within a competitive environment whereas not-for-profits operate within a collaborative environment. Not-for-profit staff and volunteers share information and knowledge and work together to achieve their mission. The not-for-profit environment is best suited to those who are mission-driven and seek partnerships.

Background

In 2017 there were almost 7,100 active not-for-profit corporations in Manitoba. In addition, there are hundreds, if not thousands, of less formally organized, non-incorporated or "grassroots" not-for-profit groups in our province.

For a list of all the different activities that not-for-profits are involved in, visit the [International Classification of Non-profit Organizations \(ICNPO\)](#).

Terminology

Non-Profit Organization (Manitoba) is defined by the Manitoba Companies Office as an organization which is created with the intention to not make personal profits. It is formed for non-commercial purposes, for example, to perform community work or to establish a social or athletic club. Any profit that is made is used to further the goal or undertaking of the organization. Profits must not be used by the individuals involved for their own personal financial gain.

- **Grassroots Not-for-profit** is a not-for-profit that has not been incorporated. It is usually more informal than an incorporated organization. It may or may not have paid staff.
- **Incorporated Not-for-profit** is an organization that has been incorporated as a non-share non-capital corporation. Organizations can be incorporated under either provincial or federal jurisdiction. Organizations incorporated provincially follow the [Corporations Act of Manitoba](#), organizations incorporated federally follow the [Canada Not-for-Profit Corporations Act](#).

Non-Profit Organization (NPO) (Federal) is defined by the Canada Revenue Agency as an association, club, or society that is operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. It is not a charity. No part of the organization's income can be payable to or available for the personal benefit of any proprietor, member, or shareholder, unless the recipient is a club, society, or association whose primary purpose and function is to promote amateur athletics in Canada.

Refer to the [Income Tax Guide to the Non-Profit Organization \(NPO\) Information Return](#) website for more information.

Charity is a not-for-profit that has applied for and been registered as having charitable status by the federal government. A charitable organization's purpose must fall within four general categories:

1. Relief of poverty
2. Advancement of education
3. Advancement of religion
4. Other purposes beneficial to the community in a way the law regards as charitable.

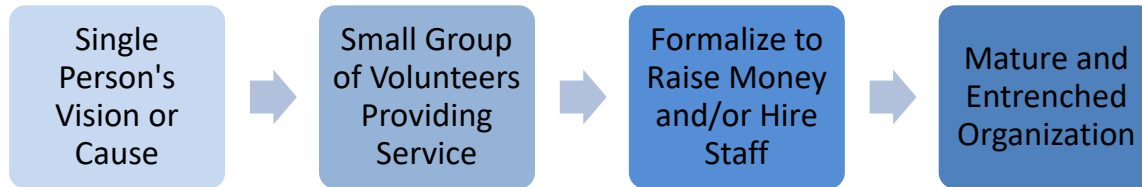
For more information refer to the [Your Guide to Applying to be a Registered Charity](#) resource guide.

Not-For-Profit Evolution

Not-for-profit organizations tend to grow at a slower rate than a for-profit business. Businesses become formalized as quickly as possible in order to make revenue. The not-for-profit, on the other hand, can remain informal for much longer because the primary focus is to provide service or pursue a goal.

Not-for-profits usually begin as a single person's vision or cause, and then grow to include a small group of volunteers providing service. Over time, possibly even after a number of years, the not-for-profit may become more formalized in order to raise money and/or hire staff. This typically means that a volunteer board of directors is formed to oversee the organization, a staff person is hired who reports to the board and additional staff and volunteers are involved to deliver the programs and services. If successful, the organization eventually matures and is an entrenched organization.

Diagram of a Not-For-Profit's Evolution



Is it Necessary to Incorporate?

The process to incorporate creates a distinct legal entity for the organization, separate and apart from those individuals who are involved with it; even those who started it.

Not-for-profits can exist the entire time as a small, grassroots organization. There is no requirement to incorporate. Becoming incorporated is a decision based on an analysis of the benefits, assessment of risks, financial costs and time needed to maintain incorporation.

There are many advantages to incorporating, but there are also costs and on-going registration requirements. The choice will depend on your particular circumstances.

Read Corporations Canada's article [Is Incorporation Right For You](#) for more details about the advantages and implications of incorporating.

Imagine Canada provides a synopsis of the advantages and disadvantages of incorporating in their article [Incorporating as a Non-Profit](#).

Not-For-Profit Components

The structure of your not-for-profit may depend on the amount of human and financial resources that are available. The more formally you wish to structure your organization, the more funds, volunteers and/or staff you will need.

The following structural components should be considered when starting your not-for-profit. **None of these components are required for grassroots not-for-profits but should be in place if you wish to incorporate.**

Vision and Mission

Be clear about what your organization is trying to do. Decide and be able to articulate what ultimately it is that you want your not-for-profit to change or achieve. This is referred to as the **vision** for your not-for-profit.

Then decide how your not-for-profit is going to achieve this. This is referred to as your not-for-profit's **mission**. Think of the vision and mission as 2 distinct parts of a whole. If your not-for-profit succeeds in its mission, your vision will be realized.

If you decide to incorporate your not-for-profit, your vision and mission statement can be used to state your organization's Undertaking, the term used by the Corporations Act (Manitoba), when applying for incorporation.

The undertaking of the corporation must be either patriotic, religious, philanthropic, charitable, educational, agricultural, scientific, literary, historical, artistic, social, professional, fraternal, sporting or athletic in nature.

Your vision and mission will influence whether your not-for-profit can successfully apply for registration with the Canada Revenue Agency as a charitable organization, so these should be carefully considered. For more information refer to the [Your Guide to Applying to be a Registered Charity resource guide](#).

To learn more about establishing a vision and mission statement read the article [The Importance of Vision, Mission and Values](#).

Board of Directors

Board of Directors is a group of volunteers who are committed to governing and leading the not-for-profit organization. They set the strategic direction of the organization and provide oversight to make sure the not-for-profit is working towards achieving its mission.

Directors have three basic duties as outlined in the Manitoba Corporation's Act:

1. The duty of diligence – the duty to act in the best interests of the organization and its members
2. The duty of loyalty – the duty to place the interests of the organization first
3. The duty of obedience – the duty to act within the scope of the governing policies of the organization

It is important when approaching potential volunteers to serve as Directors that everybody understands that directors are responsible for providing leadership and direction to the organization, and to govern the affairs of the organization on behalf of its members. To operate a not-for-profit, many different skills are needed such as finance, governance, leadership, strategic planning, etc. so choose wisely.

A director who does not fulfill their duties may be liable. Liability arrives in the following three situations:

1. When a law (statute) is broken
2. When a contract is breached or violated, where a contract is a legally enforceable promise between two or more parties
3. When an act, or a failure to act causes injury or damage to another person (tort).

Bylaws

By-laws are developed to define your organization's governing structure. Bylaws outline how your organization will be managed and how it will run. They define the roles and responsibilities of the board of directors, among other details such as how often the board meets, who can be on the board, who can vote, etc.

Imagine Canada provides a variety of [resource material](#) that can help you understand how to establish by-laws.

For organizations incorporating federally, Corporations Canada has provided [model by-laws for not-for-profit corporations](#). You can choose alternative provisions or create your own by-laws using the [By-law builder: not-for-profit corporations](#).

Volunteers and Staff

Not-for-profit organizations generally start as 100% volunteer-run, with no paid staff. The volunteers on the board of directors in addition to their governance duties often take on additional roles, delivering operational and front-line services. In time, the not-for-profit may recruit a pool of committed, competent, passionate volunteers to perform non-governance daily tasks.

It takes a special skill set to recruit volunteers successfully. What is important, quality vs quantity of volunteers, will depend on the specific volunteer task. A well-managed volunteer program gives volunteers the guidance, feedback, and supervision they require to be successful in their role and allow the not-for-profit to operate at peak capacity.

As the not-for-profit grows and acquires more funds, staff may be required to oversee the administration, programs and strategic plan of the organization. Other duties may include fundraising, marketing, and community outreach. The senior staff person reports directly to the volunteer Board of Directors.

Volunteer Manitoba understands the challenges that non-profits and charities face when it comes to the recruitment, retention and recognition of their volunteers. To address those challenges, we provide extensive [training in volunteer management](#), access to the latest trends and research, assistance in the [recruitment of volunteers for your programs](#), and staff who have expertise and hands-on experience in the field of volunteer management.

Volunteer Canada has established a [Canadian Code for Volunteer Involvement](#) which outlines the best practices to support and value the role and impact of volunteer involvement.

Risk Management

There are risks of operating a not-for-profit and you should have structures in place to mitigate these risks. Common risk management practices to protect the volunteer board of directors and the organization include:

1. Manage the organization knowledgably and thoughtfully. Boards of Directors should have policies and practices in place to mitigate risk, and processes to monitor risks, to ensure they are being managed appropriately.
2. Purchase insurance.

For information about common risks and insurance policies relevant to not-for-profits read [Insurance and Liability for Charities and Nonprofits](#).

3. Incorporate your organization (the steps to incorporate will be covered in more detail in this guide). Incorporating your not-for-profit shifts liability from the individual to the corporation. The Board of Directors are then eligible for Directors & Officers Insurance and indemnification. It is very common for not-for-profit organizations to indemnify their directors for liabilities they might incur in carrying out their duties as directors. An indemnified director would be compensated for legal fees, fines, financial settlement or other legal obligations the director is required to fill. Note however that indemnification works only to the extent that the person was acting in good faith, and that the corporation has sufficient funds to indemnify them.

Additional Resources:

[Guidelines and checklists](#) to manage risk in not-for-profits.

[10 steps for screening volunteers](#) as recommended by Volunteer Canada.

[Risk Management in 3 Steps for Nonprofit Boards](#) provides information about how Boards of Directors can manage risk.

Starting a Grassroots Not-For-Profit

A grassroots not-for-profit is a not-for-profit that has **not** been incorporated. It is usually less formal than other not-for-profits, with few paid staff and small budgets. These organizations may be new or

have been in existence for many years. Examples of grassroots not-for-profits are community groups, a coalition of organizations, or an alliance of similar organizations.

The following steps are not required to be a grassroots not-for-profit. With our experience at Volunteer Manitoba, we urge you to consider completing them to ensure you are operating professionally and efficiently. If you intend to eventually incorporate, completing these steps now will make the transition easier.

Find help

Many skills are needed to operate a not-for-profit and rarely can one person do everything, or do everything well. Find at least one other person who complements your skill set and passion for the cause to assist and help guide the organization.

For assistance in recruiting volunteers, visit Volunteer Manitoba's website which lists [resources and supports for organizations](#) seeking volunteer assistance.

Register your not-for-profit's name

Step 1: Submit a "Request for Name Reservation" through the Companies Office for approval.

Step 2: When you receive the name that was approved, submit a "Request for Name Notation" form to note the name of your not-for-profit on the Companies Office records. Include a Corporate Filing Request form with your Name Notation documents. This name notation is good for three years. However, if another organization incorporates while you remain unincorporated, they can use this name.

Visit the [Companies Office website](#) to access the required forms and view the helpful Instruction Sheets for the various forms.

Register a domain name

Consider reserving a domain name for your not-for-profit to create your website and get a custom email address.

[The Ultimate Guide to Choosing a Domain Name](#) e-book has information on choosing a domain name for your not-for-profit.

Visit the [Canadian Internet Registration Authority](#) to see if your .ca website name is available.

Visit the [Public Interest Registry \(PIR\)](#) to see if your .org, .ngo, or .ong domain name is available.

Visit [Google](#) to see if your .com domain name is available.

Open a separate bank account

Strive for transparency and accountability from the start. Ensure you can show your donors and funders where and how their donations are being spent. Visit your local financial institution to open a separate bank account for your not-for-profit. Your financial institution may require documentation. Work with them to determine the best course of action.

Maintain business records

If you wish to keep your personal and not-for-profit income taxes separate, you should keep separate records for all transactions related to the not-for-profit that support your income and expenses. Tax documents must be kept for the current year plus six years. Other documents may have other retention periods. It is best to consult with an accountant, tax lawyer, and/or Human Resource industry professional for further guidance.

The Government of Canada website provides information on [what are records and who has to keep them](#).

Purchase insurance

Consider purchasing insurance as one way to mitigate risk. Imagine Canada has information about [Insurance and Liability for Charities and Nonprofits](#). It is important to realize that insurance policies are not standardized and each insurer has unique clauses. Work with an insurance broker to understand your risks and the appropriate coverage you require.

Develop your skills

As mentioned earlier, many skills are needed to successfully operate a not-for-profit. Volunteer Manitoba offers training to help increase your skills, build your confidence, and provide an opportunity to network with others in the not-for-profit sector. Visit our website for more information, www.volunteermanitoba.ca/training

Incorporating Your Not-For-Profit

There is no legal requirement that your grassroots organization be incorporated. In order to incorporate, you must complete the following steps.

Recruit at least three (3) Incorporators

To meet the minimum number of Incorporators you can have two individuals plus yourself, if you intend to serve as one of them. These individuals will most likely act as your first board of directors.

The Companies Office provides guidance on who is eligible to be an incorporator in the [Guidelines for Completion of Articles of Incorporation \(Without Share Capital\)](#) – Refer to paragraph 4 in the document.

Complete the necessary forms

To incorporate **provincially**, all forms required to incorporate are available through the [Companies Office](#) in the Corporate Forms – Manitoba Corporations section.

Once incorporated, the Companies Office will issue the corporation a 9-digit Business Number (BN). Keep this number readily available because it will be used as you continue to conduct operations under the corporation's name.

To incorporate federally, the forms are available on the Government of Canada website [Creating a not-for-profit corporation](#).

Once your not-for-profit is incorporated you are expected to meet the requirements to retain your corporation. Requirements differ depending on the type of organization you have. You now must follow the legislation relevant to you.

Purchase insurance

Consider purchasing Director and Officer Insurance for your board of directors. Imagine Canada has information about [Insurance and Liability for Charities and Nonprofits](#). It is important to realize that insurance policies are not standardized and each insurer has unique clauses. Work with an insurance broker to understand your risks and the appropriate coverage you require.

NOTE: the remaining steps to incorporating are described in more detail in the Starting a Grassroots Not-For-Profit section of this manual.

- **Register a domain name**
- **Open a separate bank account**
- **Maintain business records**
- **Develop your skills**

Financial Administration

There are financial implications of having a not-for-profit, both grassroots and incorporated. It is recommended that you consult with an expert such as an accountant or tax lawyer to understand the requirements and rules related to not-for-profit finances.

The Manitoba Government [Non-Profit Organizations portal](#) provides guidelines and resources related to financial administration and tax legislation. The [Chartered Professional Accountants \(CPA\) Canada](#) has information and resources related to financial and non-financial reporting requirements for not-for-profit organizations.

Disclaimer

The information in this document is intended as general information only, not as legal advice. Every situation is unique. If you need advice, you should consult a lawyer.

The information in this document was correct when posted, but because information changes frequently it may have become outdated.

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Other resources:

https://companiesoffice.gov.mb.ca/notices/non_profit.pdf