

Start and Run a Nonprofit Organization

Free Library of Philadelphia

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Incorporating your nonprofit organization



Why incorporate?

- Limits your liability
- Gives your organization perpetual existence
- Taxation benefits
- Helps raise money

Why incorporate as nonprofit?

- Exemption from Federal income taxes
- Exemption from state sales taxes
- Exemption from local property taxes
- Donors can deduct charitable contributions

What is the purpose of my organization?



- State law requirement
Any Lawful purpose and no private benefit.
- Under Federal law
Charitable, religious, educational, scientific, literary, .

What will my organization be called?



Name?

- Should not be similar to any existing corporate name or any reserved name.
- <http://www.dos.state.pa.us/corps> - click on 'Business Names' to check availability



Do I need members?



- If you have members, then members elect the Board of Directors.
- Otherwise Incorporators elect the Board and appoint their successors.
- Advisable not to have members unless for a specific reason.

Process of incorporation



- Articles of Incorporation, form DSCB: 15-5306
- Docketing statement, form DSCB: 15-134A



- Pay Fees



- Advertise

How to get Articles of Incorporation form?

- <http://www.dos.state.pa.us/corps> - click on “Forms” – Under domestic non profit corporation – Articles of incorporation.



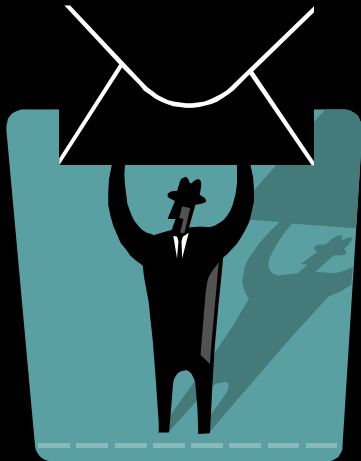
- Can order through phone, call – 717 787-1057

Docketing statement, form DSCB: 15-134A



- Also available at the website along with Articles of Incorporation.
- See Appendix

- Mail along with Articles of Incorporation and Fees to



**Department of State
Corporation Bureau
P.O. Box 8722
Harrisburg, PA 17105-8722**

PENNSYLVANIA DEPARTMENT OF STATE CORPORATION BUREAU

Articles of Incorporation-Nonprofit
(15 Pa.C.S.)

- Domestic Nonprofit Corporation (§ 5306)
- Nonprofit Cooperative Corporation (§ 7102B)

- Check Domestic Nonprofit

Name		
Address		
City	State	Zip Code

Document will be returned
to the name and address
you enter to the left.



Fee \$125

- Name: Incorporator or founder
- Address: Registered office or residence address

In compliance with the requirements of the applicable provisions (relating to articles of incorporation or cooperative corporations generally), the undersigned, desiring to incorporate a nonprofit/nonprofit cooperation corporation, hereby state(s) that:

1. Name of the corporation is	HELPING HAND INC.
-------------------------------	-------------------

- Fill in the official name of the organization.
- Use this name for all official communication
- Example – Helping Hand Inc

2. The (a) address of this corporation's current registered office in this Commonwealth or					(b) name
of its commercial registered office provider and the county of venue is:					
(a) Number and Street	City	State	Zip	County	
(b) Name of Commercial registered office provider c/o:				County	

- Fill in the registered office address, can be your residence address
- Cannot be P.O box number, has to be a street address.

3. The corporation is incorporated under the Nonprofit Corporation Law of 1988 for the following purpose or purposes.

- Any lawful person and not for personal gain.
- Restricted purpose for tax exempt purpose.

4. The corporation does not contemplate pecuniary gain or profit, incidental or otherwise.

- Just a declaration you don't need to do anything.

5. Check one of the following

- The corporation is organized on a non-stock basis
- Option for Nonprofit Cooperative Corporation Only: The corporation is organized on a stock share basis.

•Check non- stock basis

6. For Nonprofit Corporation Only:

(Strike out if inapplicable): The corporation shall have no members

(Strike out if inapplicable): The incorporators constitute a majority of the members of the committee authorized to incorporate: _____ by the requisite vote required by the organic law of the association for the amendment of such organic law.

•Strike out second unless you decide to have members

7. For Nonprofit Cooperative Corporation Only:

Complete and strike out the inapplicable term: The corporation is a cooperative corporation and the common bond of membership among its (members) (shareholders) is:_____.

•Leave blank unless you are a cooperative corporation

8. The name(s) and address(es) of each incorporator(s) is (are) (all incorporators must sign below):

Name(s)

Address(es)

- Person filing the documents with the state.
- Can be more than one.
- Mention home address or registered office address

9. The specified effective date, if any, is:

Month day year hour, is any

- Default – When you file your Articles
- Or Specify the future date you want your organization to come into existence.

10. Additional provisions of the articles, if any, attach an 8 1/2x11 sheet

- Very important, attach the dissolution clause.

IN TESTIMONY WHEREOF, the incorporator(s) has/have signed these
Articles of Incorporation this

_____ day of _____

Signature

Signature

Signature

- **Make sure each incorporator signs**

Docketing Statement DSCB: 15 – 134A (Rev 2001)

Departments of State and Revenue

One (1) copy required

BUREAU USE ONLY:

Dept. of State Entity # _____

Dept. of Rev. Box # _____

Filing Period _____ Date 3 4 5 _____

SIC/NAICS _____ Report Code _____

- This is for official use only
- Do not fill this

Check proper box:

Pennsylvania Entities

<input type="checkbox"/>	business stock
<input type="checkbox"/>	business non-stock
<input type="checkbox"/>	professional
<input type="checkbox"/>	nonprofit stock
<input type="checkbox"/>	nonprofit non-stock
<input type="checkbox"/>	statutory close
<input type="checkbox"/>	management
<input type="checkbox"/>	cooperative
<input type="checkbox"/>	insurance
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	restricted professional
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	business trust

Foreign Entities

State/Country _____ *Date* _____

<input type="checkbox"/>	business
<input type="checkbox"/>	nonprofit
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	restricted professional
<input type="checkbox"/>	limited liability company
<input type="checkbox"/>	business trust

Other

<input type="checkbox"/>	domestication
<input type="checkbox"/>	division
<input type="checkbox"/>	consolidation

- **Check nonprofit non-stock**
- **Leave other two boxes blank**

1. Entity Name:

2. Individual name and mailing address responsible for initial tax reports:

Name	Number and street	City	State	Zip

3. Description of business activity:

4. Specified effective date, if any:

Month/day/year hour, if any

5. EIN (Employer Identification Number), if any:

6. Fiscal Year End:

7. Fictitious Name (only of foreign corporation is transacting business in PA under a fictitious name):

Fees



- The filing fee for this form is \$125 made payable to the Department of State.
- Check or Money Order



Advertising requirements



- AOI filing to be published
- Two News Papers – One Legal
- Include name of the Organization and date of filing articles
- Fees varies, approximately \$300
- Proofs of publication – Keep in your records

Corporate By Laws



What are Bylaws?

- “The code or codes of rules adopted for the regulation or management of the business and affairs of the corporation irrespective of the name or names by which such rules are designated.”
- Rules that the Board of Directors must follow while directing the course of the corporation

What does PA law require ?

- Appoint a President, Secretary, and Treasurer
- Quorum requirements for business decisions
- Method for expelling directors or members from the corporation

What is a quorum?

- The minimum number of members or directors required to be present in order for a meeting to be held for the legal transaction of business
- Business decisions cannot be made legally binding at board meetings without a quorum present

What should be in the bylaws?

- Purpose of the corporation
- Location of principal office and fiscal year
- Appointment of the initial Board of Directors
- Conflict of interest policy
- Appointment of committees
- Bylaw amendment rules
- Officers' roles, job description and term of office
- Election of directors and officers
- Meetings
- Dissolution

What do I do after the bylaws are drafted?

- Schedule a meeting of the initial board of directors for the purpose of adopting the bylaws
- Give 5 days notice and give each director a copy of the bylaws
- After discussion a motion should be made to vote on the bylaws

Adopting Bylaws

- If the motion passes to adopt the bylaws make sure the secretary signs the certification on the bylaws
- Do Not file your bylaws with the state
- The original bylaws should be kept with the corporation books
- A copy of the bylaws should be given to each director
- Amendments to the bylaws should be kept with the original bylaws

Obtaining Tax Exempt Status

An Overview of I.R.S. 1023 Form

Legal Requirements

- Must have a purpose defined in 501(c)(3)
 - Charitable, religious, educational, scientific, etc.
- In general, should be a corporation
 - Must first file Articles of Incorporation
 - By-laws, including conflicts of interest policy
- Must first obtain Employer ID number
 - This can be done over phone or on internet
-

Practical Considerations

- Costs \$400-850 depending on annual gross receipts
- 1023 form and instruction are available at <http://www.irs.gov>
- IRS response time ranges from 3 months to longer

Details on the Narrative

- Complete description of past, present and future activities
- For each activity
 - What it is
 - Who conducts it
 - When
 - Where
 - How it furthers the tax exempt purpose
 - How it is funded
 - How much of the organization's time will be devoted to it

Compensation

- Must list compensation paid to all board members and employees
 - Must provide their addresses
- Must specifically list five highest paid employees who earn more than 50K
 - Must also list all independent contractors who make more than 50K

Budget

- Purpose of budget is to measure revenue against expenses
 - If organization has been in existence, it can use past financial figures to make projections
 - If organization is brand new, it must make a reasonable and good-faith estimate of 2 years of future budgets
- For revenue to be tax exempt it must be generated in furtherance of organization's purpose

Budget: Revenue

Part IX Financial Data

For purposes of this schedule, years in existence refer to completed tax years. If in existence 4 or more years, complete the schedule for the most recent 4 tax years. If in existence more than 1 year but less than 4 years, complete the statements for each year in existence and provide projections of your likely revenues and expenses based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. If in existence less than 1 year, provide projections of your likely revenues and expenses for the current year and the 2 following years, based on a reasonable and good faith estimate of your future finances for a total of 3 years of financial information. (See instructions.)

A. Statement of Revenues and Expenses

	Type of revenue or expense	Current tax year				If prior tax years or 2 succeeding tax years				(e) Provide Total for (a) through (d)
		(a) From		(b) From		(c) From		(d) From		
		To	To	To	To	To	To	To		
Revenues	1	Gifts, grants, and contributions received (do not include unusual grants)								
	2	Membership fees received								
	3	Gross investment income								
	4	Net unrelated business income								
	5	Taxes levied for your benefit								
	6	Value of services or facilities furnished by a governmental unit without charge (not including the value of services generally furnished to the public without charge)								
	7	Any revenue not otherwise listed above or in lines 9-12 below (attach an itemized list)								
	8	Total of lines 1 through 7								

Budget Cont'd

■ Types of revenue

- Gifts, grants and contributions received
- Membership fees received
- Gross investment income (dividends, interest, etc.)
- Net unrelated business income
- Taxes collected by local government on organization's behalf
- Fair market value of services/facilities furnished by the government
- Itemized list of any other source of revenue
- Gross receipts for services rendered and/or goods sold
- Net gain OR loss on sale of capital assets
- Unusual grants

Budget Cont'd

Budget: Expenses

EXPENSES	9	Direct receipts from admissions, merchandise sold or services performed, or fundraising activities in any activity that is related to your award's purposes (attach itemized list)					
	10	Total of lines 9 and 8					
	11	Net gain or loss on sale of capital assets (attach schedule and see instructions)					
	12	Interest income					
	13	Total Revenue Add lines 9) through 12)					
	14	Prohibiting expenses					
	15	Contributions, gifts, grants, and similar amounts paid out (attach an itemized list)					
	16	Disbursements to or for the benefit of members (attach an itemized list)					
	17	Compensation of officers, directors, and trustees					
	18	Other salaries and wages					
	19	Interest expense					
	20	Contractual fees, utilities, etc.					
	21	Depreciation and depletion					
	22	Professional fees					
	23	Any expenses not otherwise classified, such as program services (attach itemized list)					
	24	Total Expenses Add lines 14 through 23					

Budget Cont'd

- Types of Expenses
 - Fundraising costs
 - Contributions made to other organizations
 - Payments made to members
 - Compensation of employees
 - Interest paid
 - Rent, Utilities
 - Depreciation and depletion
 - Fees paid to professionals not employed by organization
 - Program Costs
 - Any other expenses

Specific Activities

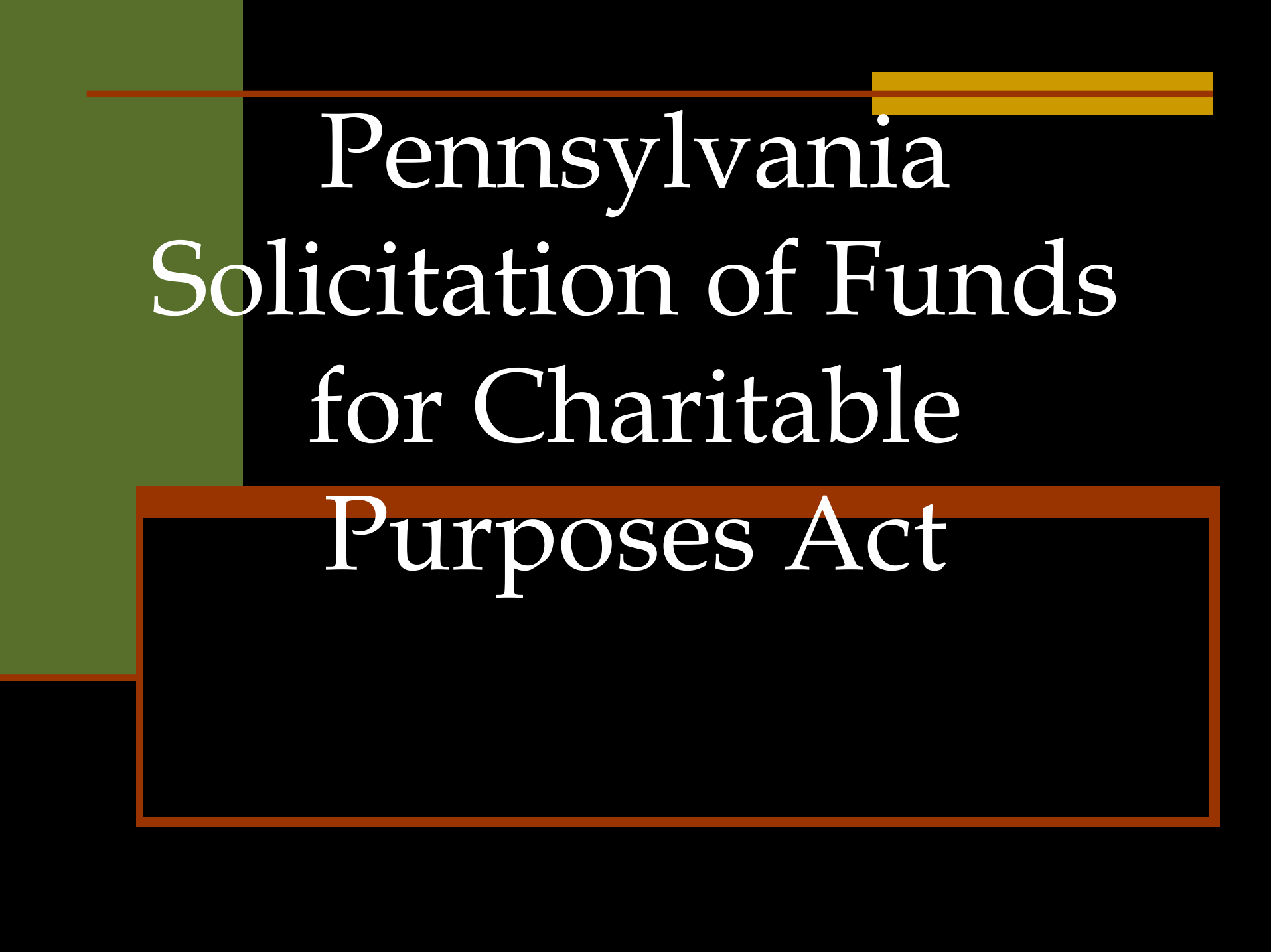
- Must explain political activities in detail
 - Too much involvement in politics can act as a bar to federal tax exemption
- Must explain all fundraising activities
 - Form of media used (phone, mail, etc.)
 - Contracts entered into with fundraisers
 - Collaborative efforts with other organizations
- Must explain all grants made to other organizations

Schedules

- Churches
- Educational institutions
- Hospitals and Medical Research Organizations
- Organizations supporting other organizations
- Organizations that have existed for more than 27 months
- Homes for elderly and/or low-income residents
- Successors to other organizations
- Organizations providing educational funds

Review

- IRS uses 1023 form as a tool to explore the purpose and operation of the potential tax exempt organization
 - It is not a vehicle for personal benefit
 - It is not involved in too much for-profit activity
- Only certain non-profit entities are eligible
- Must fill the form out accurately and thoroughly
- Certain sections of the form are more time consuming



Pennsylvania
Solicitation of Funds
for Charitable
Purposes Act

Purpose of the Act

- Require the registration of charitable organizations before they can solicit donations in the Commonwealth
- Why?
 - To Prevent Fraud
 - In 1999, the American people donated over 190 billion dollars to various charities nationwide.
 - To provide information to the public
 - Enable donors to make informed decisions before making donations

Purpose of the Act, continued

- Registration protects the public by requiring:
 - The identity of persons who solicit contributions from the public
 - The purposes for which such contributions are solicited
 - The manner in which such contributions are actually used

New Form 990

- Postcard should be attached

Key Definitions

- Contribution – The promise, grant or pledge of any type of asset (cash, property or any thing of value) in response to a solicitation, including the payment or promise to pay in consideration of a performance, event or sale of a good or service.

Key Definitions, continued

- Solicitation – Any direct or indirect request for a contribution on the representation that such contribution will be used in whole or in part for a charitable purpose, including but not limited to:
 - Sales of, offer or attempt to sell any advertisement sponsorship, book,....
 - Announcements requesting the public to attend an athletic or competitive event, carnival, circus, concert,... or event of any kind.

Internet Solicitations

- Internet solicitations are treated no differently than any other type of solicitation
 - Organizations must register prior to soliciting via the internet

Organizations exempt from registration

- Includes but not limited to:
 - Bona fide religious institutions
 - Educational institutions and Hospitals
 - Charitable organizations which receive contributions of \$25,000 or less annually, provided that such organization does not compensate any person who conducts solicitations

Registration Information

- Includes:
 - Name of organization and any other names under which it plans to solicit donations
 - Copy of financial report (including balance sheet, statements of revenue, expenditures for supplies, activities, detailed list of salaries)
 - Clear description of specific programs for which contributions will be used
 - Whether any of the organization's officers, trustees, or employees are related by blood, marriage or adoption

Registration does not equal endorsement

- Registration with the Department of State does NOT in any way imply endorsement from the Department of State.
- All printed solicitations must include the following statement, verbatim:
 - The official registration and financial information of (insert legal name of Charity as registered with department of state) may be obtained from the Pennsylvania Department of State by calling toll-free, within Pennsylvania, 1-800-732-0999. Registration does not imply endorsement.

Prohibited Acts

- Operating in violation of this act
- Using a name, symbol or statement so closely related to that used by another charitable organization that its use would confuse or mislead a donor
- Representing that any part of the contributions received will be given or donated to any other charitable organization unless, prior to the solicitation, that organization has consented to the use of its name

Prohibited Acts, continued

- Using or exploiting the registration in a way that leads the public to believe that registration constitutes endorsement by the State
- Misrepresenting or misleading the public in any manner to believe that any person sponsors, endorses or approves a particular solicitation (without that person's consent in writing)
- Using any unfair or deceptive acts which creates a likelihood of confusion or misunderstanding

Institution of Purely Public Charity Registration Statement

- Organizations exempt from registration under this Act **must still file** an Institution of Purely Public Charity Registration Statement
 - Exemptions:
 - Bona fide religious institutions who are exempt from filing an annual IRS 990 Return
 - Organizations which receives contributions of less than \$25,000 per year

Potential Penalties

- Potential for both criminal and civil penalties
 - Penalties can include a fine not exceeding \$10,000 or imprisonment for not more than 5 years or both, for deceit or fraud violations
 - Or a fine not exceeding \$2,500 or imprisonment for not more than one year or both, for other violations.

Unified Registration Statement

- Developed between the charitable community and the National Association of State Charity Officials.
- The URS can be filed in 34 different states in lieu of the states' own registration statements. The form, which is accepted by Pennsylvania and New Jersey, can be downloaded at <http://www.multistatefiling.org/>

Summary

- Know what type of registration your organization must file (or if you are exempt)
- File in a timely manner
- Become knowledgeable about the Act
 - Know the required acts and the prohibited acts to avoid the penalties



Fiscal Sponsorship

“Borrowing” 501(c)(3) Status



You don't have 501(c)(3) status,

but

You want the tax benefits of a
501(c)(3) organization...

...What do you do?

■ FS Basics

- What is it?
- Who needs it?
- How does it work?

■ Models of FS

- Direct Project
- Pre-Approved Grant

■ Pros & Cons

■ Ensuring a Successful FS Relationship

■ Finding a FS

■ Resources

Donors + Grants (\$) → Fiscal Sponsor (\$) → Project

The **Fiscal Sponsor**

- nonprofit organization
- has 501(c)(3) tax exempt status
- receives grants & donations for **Project**
- fee

The **Project**

- individual(s) or organization, w/ or w/o entity status
- no 501(c)(3) tax exempt status
- wants to apply for grants & solicit tax-deductible donations

Projects suitable for FS

- **well-organized projects** that lack administrative support staff
- **short-term or temporary projects**-- time & expense of incorporation would be impractical
- **sudden needs**, such as disaster relief (Katrina) or other immediate need

••••➤ **the Fiscal Sponsor manages funds or provides other support, depending on Project need:**

- Manage grants or donations made to Project
 - Receive & hold funds for Project
 - Write checks out of held funds
 - Include Project grants & funds in Sponsor's annual tax return & audit
- Administrative Support / Technical Assistance
 - Act as HR manager, administrative coach or fundraising partner
 - Help w/ bookkeeping, tax returns, payroll, or management

FS Models

(from Gregory Colvin's Fiscal Sponsorship: 6 Ways To Do It Right)

FS Models	Basic Characteristics	Separate Legal Entity?	Relationship	Charitable Donations Belong to	3d Party Liability of Sponsor	Owner of result	Pmts on IRS Return (Sponsor)	Pmts on IRS Return (Project)	Comments
A. Direct Project	Project belongs to Sponsor & implemented by employees & volunteers	No	Employer-Employee	Sponsor	Total liability for employee acts	Sponsor	990, payroll tax returns	Individual 1040s	Legally, Project is like direct activity of Sponsor
B. Indep. Contractor Project	Project belongs to Sponsor & conducted by separate entity under contract	Yes	Project Contract	Sponsor	Varies, may be partial or total	Sponsor, usually	990, 1099 if person	Depends on legal status	Appropriate if Project is integral part of Sponsor's work
C. Pre-approved Grant	Project applies to Sponsor for grants; Sponsor funds project only to extent \$ received from donors	Yes	Grantor-Grantee	Sponsor	Selection and pmt of grantee, & terms set by funding source	Project, usually	990	Depends on legal status	Used by non-501(c)(3) Projects to raise tax deductible funds
D. Group Exemption	Sponsor gets federal group tax exemption, 501(c)(3) status to subordinate projects	Yes	Subordinate-Affiliate	Project	Only as provided in affiliation agreement	Project	Annual listing of organizations, no financial info	990, separate or group return	Project gets 501(c)(3) w/o separate IRS app; must be subject to control and supervision of Sponsor
E. Supporting Org.	Project gets own 501(c)(3), w/ public charity status based on support of Sponsor	Yes	Degree of connection varies	Project	None	Project	None	990	Project must apply for 501(c)(3), but can be public charity w/ only one donor
F. Tech Assist.	Project has 501(c)(3) but needs admin support	Yes	Management Contract	Project	Only as provided in contract	Project	990, if fee charged	990, if fee paid	Sponsor provides financial mgmt to Project, but funds raised & spent in Project's name

Ensuring a Successful FS Relationship

- Get legal counsel
- Plan ahead!
- Clearly define each Party's obligations
 - Fair and timely process to access funds
 - Fiscal Sponsor should manage affairs reasonably
- Plan for Exit or Termination of FS
 - Preconditions for relationship to end
 - Division and Transfer of assets created by Project

Ensuring a Successful FS Relationship

- Negotiate a Fee in advance
 - Flat fee or % of Project revenues, usually 2-10% (may be higher)
 - Build fee into budget
 - List all services Sponsor will provide for the fee
 - How & When fee will be collected
- Regularly evaluate the FS Relationship

Put it all in writing!!!

How Do I Find a Fiscal Sponsor?

1. Make a list of Nonprofits

- Familiar with you & your work
- Similar in mission, purpose, or constituency
- Specialized in FS

Where to look to compile your list:

- Foundation Center @ Free Library of Philadelphia
- IRS's Exempt Organization Search
<http://www.irs.gov/charities/index.html>
for IRS *Publication 78* list, call 1-800-829-3676
- *Resource Guide for Nonprofit Organizations*,
Philadelphia Nonprofit Capacity-Building Collaborative
<http://www.npowerpa.org/resources/tools/default.asp>

Resources

The Nonprofit Genie FAQs (frequently asked questions)

<http://www.compasspoint.org/askgenie/index.php?tpid=8>

The Tides Center

<http://www.tidescenter.org>

<http://www.tidescenter.org/become-a-project/additional-resources/fiscal-sponsors/index.html>

New Beginnings, Resources for Human Development, Inc.

http://www.rhd.org/programs/prg_nb.asp

4700 Wissahickon Avenue, Suite 126

Philadelphia, PA 19144-4248

215-951-0300

Regional Foundation Center, Free Library of Philadelphia

1901 Vine St., 2nd Fl.

Philadelphia, PA 19103

215-686-5423

Greater Philadelphia Urban Affairs Coalition

1207 Chestnut Street, 6th Floor

Philadelphia, PA 19107

Voice: 215-851-1809

Resources

Fiscal Sponsorship: 6 Ways To Do It Right by Gregory Colvin

San Francisco: Study Center Press, 1993.

Philadelphia Health Management Corporation's (PHMC)

Targeted Solutions

260 South Broad Street, 18th Floor

Philadelphia, PA 19102

Email: amyf@phmc.org

Web: www.phmc.org

Voice: 215-985-2512

The Philadelphia Nonprofit Capacity-Building Collaborative Resource Guide for Nonprofit Organizations

<http://www.npowerpa.org/resources/tools/default.asp>

Pennsylvania Association of Nonprofit Corporations (PANO)

777 East Park Drive, Suite 300

Harrisburg, PA 17111

Phone: 717-236-8584, Fax: 717-236-8767

Website: www.pano.org

Internal Revenue Service, Exempt Organization Office

<http://www.irs.gov/charities/index.html>

877-829-5500

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877-829-5500

Pennsylvania Dept of State

<http://www.dos.state.pa.us/corps>