

# Starting a Nonprofit: First Steps

## Part 1 of 2

The Parkway Central Library  
Regional Foundation Center

BRIC (Business Resource & Innovation Center)  
March 15, 2017

# WHAT IS A NONPROFIT?

**Nonprofits put their earnings back into programs.**

**For-profits distribute earnings to owners or shareholders.**

Important features of a nonprofit:

- Favorable tax treatment
- Tax-deductible donations - once the IRS approves you, donations of money and materials may be deductible for the donors.
- Grant possibilities
- Potentially lower postal rates - important if you use bulk mail

# FEATURES OF A NONPROFIT, continued

- Limits on lobbying, support of political candidates, and political activity
- Dissolution—resources stay in nonprofit activity
  - This is very important. Although you may be able to recover what you put in initially (with good records), the assets of the corporation stay with the corporation. If you leave, or if it is dissolved, no one can take anything out of it.

# PRELIMINARIES

## Questions for you:

Before getting started, you need to have thought these through and have good answers

- What is your idea? Can you describe it in a few words?
- What makes it special or unique?
- What do you know about the subject and what is your experience with it?
- What are you offering, and to whom? How will you find them?
- Have you considered joining or collaborating with an existing organization?

# PRELIMINARIES, continued

- What is your competition? How are you different?
- Do you have resources - funds for applications and for initial operation, people to help?
- What if no funds or grants or resources come in for the first six months? Year? Two years?
- How will you define success?
  - How does it relate to your mission statement?
  - This is harder than you think
  - It's a good idea to identify milestones.

# MISSION STATEMENT

A **mission statement** is an organization's reason for existing. It provides a framework to explain its purpose, in terms of who will be served and in what ways. It should state your target population, what you will provide, and why it is different, unique, and/or needed. It is very important - it defines you.

Compare a **vision**, which is what you hope to see as an end result. A mission statement needs to be narrower and more concrete.

# MISSION STATEMENT, continued

Examples:

**Vision:** All children in Philadelphia Schools will have hats and mittens for the winter.

**Mission:** The Philadelphia Knitters will provide hats and mittens to the first twenty Philadelphia schools that request them through regular knitting sessions, using purchased and donated yarns.

DON'T promise more than you can deliver. You can expand your mission later on.

# ARTICLES OF INCORPORATION

These are different for every state. Pennsylvania has revised its form (2/17). This is a new website and it warns there may be glitches.

[Go to PA Bureau of Corporations—Registration—and scroll down to Domestic Nonprofit corporation forms.](#) *If you go straight to PA Nonprofit Articles of Incorporation you will get the 2014 form.*

Information required on “Articles”:

- name (does not have to include corp., inc, etc)
- address
- purpose,
- stock or not,
- incorporators

Send with Docketing Statement—New Entity (way down on forms list) and \$125.



# ARTICLES, continued

You can apply on line but it is best to send the forms by mail with a check for \$125 and a Docketing Statement further down on the list).

Articles will be returned with a date stamp - that's your date of incorporation.

Other possible submissions, with forms to match:

- amending the articles
- annual statement (required if, and only if, your address changes)
- a notice that original incorporator(s) has changed

# ARTICLES, continued

The IRS has requirements not included in the Pennsylvania forms. To avoid any future difficulty, add a page titled “Addendum.”

\_\_\_\_\_, a nonprofit corporation, is organized exclusively for charitable, religious, educational, and scientific purposes, including for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code or corresponding section of any future federal tax code.

Upon the dissolution of the organization, assets shall be distributed for one or more exempt purposes within the meaning of section 501(c)(3) of the Internal Revenue Code or corresponding section of any future federal tax code, or shall be distributed to the federal government, or to a state or local government for a public purpose. Any such assets not disposed of shall be disposed of by the Court of Common Pleas of the county in which the principal office of the organization is then located, exclusively for such purposes or to such organization or organizations as said Court shall determine which are organized exclusively for such purposes.

SIGN AND DATE

# FICTITIOUS NAME REGISTRATION

When do you need this?

If your organization has a name that others might want to use, and you want to have exclusive use of it (not ownership, just exclusive use). You can check on the website to see if someone already has your name.

For instance, “Richard Anderson's Good Works” is probably OK.

“Philadelphia Fairy Godmothers” may not be protected.

PA Forms, Registration of Fictitious Name

All “individuals interested in the business must sign.

Fee \$70.00.

# ADVERTISING

Either before, during, or after filing your Articles you must advertise in a legal publication and a local newspaper of general circulation. Standard language - they will know what to say.

Information required:

- name
- statement of incorporation
- brief summary of purpose
- date of filing

Retain a copy of the ads. **Start keeping copies and records of all your organizational activity.**

# EMPLOYER IDENTIFICATION NUMBER (EIN)

This number is the way you will be identified, by the IRS, and by other organizations as well. It is at least as important as your organization name.

Other documents you submit are likely to ask for it.

Easiest to apply online (mail and phone are also available).

Preliminary questions, then you have 15 minutes.

Free.

Go to [IRS website](#) for online application.

# THE BOARD

Required: President, Secretary, Treasurer

You need more than your brother-in-law and two friends..

Ask---who will do the work I can't manage—event planning, fund-raising, record-keeping?

It helps to have a recognizable “name” or two, people with links to funds, and dependable workers. Good idea to get agreement to serve in writing. You build your Board as you go along.

# THE BOARD, continued

**\*\*\*The Board is responsible for the direction and growth of the organization. The Board members have the legal responsibility for the operation of the organization---in law, this is called “fiduciary responsibility.”**

**Legally, they are responsible for what goes right and what goes wrong. Many Board members are not aware of the scope of their responsibilities.**

# THE BOARD, continued

The Board, **not you**, are the “boss;” you report to them.

This is a difficult truth for founders to face: the Board can eventually fire you.

You need a strong, capable Board, not just names, with members who believe in what you are doing, are willing to work, and with whom you can communicate.



# AN ALTERNATIVE

What if you think, this is all too much---or you're going ahead with your idea and making progress but aren't quite ready to take all these steps?

You could consider a fiscal sponsor or incubator, an organization that you join temporarily - if they accept you - and that does much of the work for you.

# FISCAL SPONSORS

According to the Trust for Conservative Innovation, a fiscal sponsor is a “nonprofit organization that provides fiduciary oversight, financial management and other administrative services to help build the capacity of charitable projects.”

Local examples:

- [Urban Affairs Coalition](#)
- [Resources for Human Development New Beginnings](#)

# FISCAL SPONSORS, Continued

Services include:

- financial (audits, taxes, payroll, bill paying)
- insurance
- HR
- IT
- legal
- sometimes office space and secretarial
- help with the ins and outs of running an organization

The disadvantages are that you are a kind of subsidiary and give up some control and that there are costs payable to the sponsor.

# FISCAL SPONSORS, Continued

There is a lengthy application process. You must have more than an idea - for instance, a project you've begun which is showing some promise.

Local Examples: Healthy Newsworks, the PleaseTouch Museum,

If you are interested call either one of these to ask questions or arrange an interview.

# RESOURCES

You are not alone in this. There are many sources of help.

For instance:

- [PANO](#): Pennsylvania Association of Nonprofit Organizations—instructions, materials, forms
- [Regional Foundation Center](#), right here—lots of help, loads of materials
- [PhillyVIP](#): pro bono legal services
- The Internet: there are many entries and books. The Regional Foundation Center has recently received “*250 Questions for Starting a Nonprofit.*”

# REMINDERS

**\*\*\*Start keeping records from the very beginning, including a list of what you spend (you may be able to recover initial expenses).**

**\*\*\*ALWAYS have someone check your documents to help you spot errors and omissions.**

# Starting a Nonprofit: Next Steps

## Part 2 of 2

The Parkway Central Library  
Regional Foundation Center

BRIC (Business Resource & Innovation Center)

March 22, 2017

Presented by Carole Soskis

Important Documents | Filing the 1023-EZ |  
And Much More

# Reminders: Changes and Amendments

## Mission Statement

Your Mission Statement may be adapted from time to time; in fact, it probably should be as you grow. However, as long as you maintain your core purpose, you do not have to send any official notifications.



# Amendments, continued

Change of name and official address must be communicated to the PA Bureau of Corporations.

Form: “Change of Registered Office”

Fee: \$5

Change of Principal Officers: “Annual Statement”

(Nothing is likely to happen if you don't do this one.)

# The 1023-EZ

A new online document, from June 2014, designed to make life easier for both you and the IRS.

It is the application to receive a designation as a charitable organization under section 501(c)(3) of the Internal Revenue Code. File within 27 months of incorporation.

If accepted, you will receive a “**favorable determination letter**,” which may be retroactive to your incorporation. Donors and grantors want this.

# 1023-EZ Requirements

- **Payment of \$275 up front, go to [www.pay.gov](http://www.pay.gov)**
- Scroll down to 1023EZ.
- Then click “Register” in the upper right-hand corner to set up a pay.gov account.
- Application has many “safeguard” questions.
- Annual gross income less than \$50,000
- Assets less than \$250,000
- 7-page eligibility worksheet to keep in your files
- You will probably mark everything “no” unless your activities include things such as selling carbon credits or running an HMO.

# Examples of Other 501(c) Tax-Exempt Organizations

- 501(c)(4): civic leagues, social welfare organizations, etc.
- 501 (c)(7): social and recreational clubs
- 501(c)(8): fraternal beneficiary societies & assns.

Today, we are only dealing only with 501(c)(3) charitable organizations, a very large category.

# 1023-EZ vs full 1023

- 3 pages vs 26 (usually about 12 apply)
- No attachments required vs many, many attachments
- **\*\*BUT- by signing the 1023-EZ you are attesting that you have them - e.g., Articles, bylaws, conflict of interest statement**
- Goal of 90-day turnaround vs a year or more

# REACTION to 1023EZ

For most small nonprofits, it has made life much easier; but it is not hard to “fudge” some of your answers. Don't do it. If you do well, an eventual audit will catch you.

When it first came out the CEO of the National Council of Nonprofits said, “In many communities, it takes more to get a library card than it takes to get this new exempt status.”

# Important Issues with the 1023-EZ

- It really is a fairly easy document to fill out—**but** it is a **public** document and must be made available to anyone who wants to see it.
- Don't put your social security number.
- If there are false or deliberately incorrect statements, the signer is committing **perjury**. This includes saying you have certain documents when you don't.

# 1023-EZ Part I

## Identification of Applicant

- Box to check you are eligible
- Name
- Address
- EIN
- Month tax year ends (easiest to use “12”, December)
- Contact person and contact information
- Names, titles, mailing addresses of officers and directors (may use organization address)



# Part II Organizational Structure

- Type of organization (You will check “corporation”)
- Box to check that you have necessary organizing documents; **make sure you have them.**
  - Complete Articles and Bylaws at the very least
- Date incorporated
- State of incorporation

# Part II Continued

Important: Three boxes to check that:

- your organizing document (Articles) limits you to exempt purposes within 501(c)(3)
- it does not allow you, except insubstantially, to engage in activities that further non-exempt purposes
- it has the proper language about dissolution

\*\*\*This is the reason for the Addendum or Amendment to the PA Articles of Incorporation we discussed in Session I.

# Part III Specific Activities

- NTEE Code: National Taxonomy of Exempt Entities, a three-page list of categories and sub-categories. You will have to find the one that best describes your purpose. List is at the end of instructions.
- Purpose—boxes to check---charitable, religious, etc.
- Questions with boxes to check about prohibited activities, finances, etc. (Will you operate bingo?).

# Parts IV, V, VI

- Part IV, Foundation Classification: You are most likely to be a “*public charity*” based on expected sources of income and will check 1a or 1b
- Part V is about reinstatement after revocation
- Part VI—Signature

**CHECK BEFORE SUBMITTING! The IRS suggests you print it out before sending.**

# Documents You Should Have

If you send in the 1023-EZ, the IRS will assume you also have these:

- Conflict of Interest Policy
  - This guards against excessive financial benefit to staff and directors; for instance, the organization should not buy supplies from a director at a high rate without asking for bids.
  - “Adopted by resolution of the Board” with date
  - There are many examples on the web. The Regional Foundation Center can supply at least one.

# Necessary Documents, continued

## Bylaws

- These describe your organization and how you will run it. The following are some of the areas covered:
  - Name & purpose, including mission statement
  - Location of registered corporate office
  - Fiscal year
  - Board of Directors: number, powers, qualifications, selection
  - Officers: appointment/election, terms, description and responsibilities of each office
  - Annual meeting and reports
  - Amendments
  - Rules
  - Dissolution

# Documents-Bylaws, continued

- Examples are on the web and in the Regional Foundation Center.
- There are standard requirements, but also the chance to create a document that suits your organization.
- Important: Go through any version you use, line by line, and make sure you fill in all the blanks.

# Informing the IRS of Changes

To inform the IRS of a change of address or responsible party you may:

1. Indicate it on your tax return
2. Send form 8822 (to where you file taxes)
3. Mail in a written statement (same)
4. Call

**\*\*\*\*If you have already filed a tax return, all you need to do is change the address on the next one.**



# More to Do---Banking

- If you have not already done so, get a nonprofit bank account. Some banks provide free services for nonprofits; others do so at very low cost (although you will have to pay for checks). Usually a very low minimum balance is required.
- If you are already a customer, you may get a better deal.
- The bank will want the following information:
  - EIN
  - Articles of Incorporation
  - Names of officers
  - Some want bylaws

# Banking, continued

- Personal ID and social security numbers for those who can sign checks and conduct other financial transactions.
- \*\*\*\*\*How many can/must sign? One or two?\*\*\*\*\*
- Be careful to avoid “commingling” - mixing personal and organizational funds.
- Maintain a balance statement with cash flow, income, expenses.

# Insurance

- Once you are actually delivering services or products, you need to think about insurance. Even a false claim could ruin you or your Board.
- Important: “D & O” insurance: Directors and Officers liability insurance - this covers the Board and officers, many of whom are volunteers. They need to be protected. May also cover some executive staff.
- If you are using your home as a base, check with an insurance agent about general liability insurance, property insurance, and any other coverage you may need.
- Get as much information as you can. Don't neglect this area.

# Acknowledging Donations and Contributions

- In order to claim a donation or contribution as a deduction, a taxpayer must have either a bank record, e.g. canceled check, or a letter of acknowledgment, either paper or online.
- A large contribution---\$250 or more---**must** have a written acknowledgment. Single payments over \$75 generally need an acknowledgment. Also send them for smaller amounts if you can. Donors like that.
- It is perfectly acceptable to send email acknowledgments, though some people prefer actual letters.

# Acknowledgments, continued

Your letter should include:

- Name of organization
- Amount of cash contribution or description of non-cash contribution (with an estimate of fair market value, if possible)
- The value of any goods or services you provided in response, or a statement that none were provided
- Optional, but a good idea---how the contribution helps

# Acknowledgments, continued

## Examples:

- Thank you for your contribution of \$400 that (organization name) received on March 30, 2016. No goods or services were provided in exchange for your contribution.
- Thank you for your contribution of three cartons of used baby clothes, with a fair market value of about \$200, that (organization name) received on March 30, 2016. No goods or services were provided in exchange for your contribution.
- Your contribution will help to make sure that low-income mothers in Philadelphia have clothes for their new babies.
- Or—To thank you for your contribution, we are sending you a DVD.

# Acknowledgments, continued

- If you provide nominal gifts in return for contributions, they do not count, e.g., key chains, mugs.
- There may be penalties for not sending proper acknowledgments, \$10 per contribution up to \$5,000 for each fund drive.
- This is bare bones; when you are ready check to see what the requirements are. Current rules: IRS publication 1771, *Charitable Contributions*, March 2016.

# Charitable Registration

- Once you have taken in more than \$25,000, you must register with the PA Bureau of Charitable Organizations, part of the Department of State.
- [Form is BCO-10](#), 6 pages. Long but not too difficult.
- Those bringing in \$25,000 - \$50,000 may provide in-house financial statements.
- Fee for that bracket: \$100
- You will get a certificate.



# Charitable Registration, continued

- Those bringing in larger amounts need more formal financial statements, generally an audit.
- There is a sliding scale of fees, up to \$250.
- Need:
  - Articles
  - Copy of 990
  - Financial statements
  - 501(c)(3) letter (initial registration only)
  - Relatively easy renewal every year.

# The 990-N

- If your gross receipts are equal to or less than \$50,000 you will file the 990-N, the “postcard.” It is 4 pages plus instructions.
- [Compare: 990-EZ: 4 pages, instructions 26 pages + appendices; Regular 990:12 pages, 50+ pages of instructions, 44 pages of appendices]
- This is very easy to file, once you get to it, and you will even get a reminder if you have filed once; **but** miss 3 years and your 501(c)(3) status is automatically revoked.
- From \$50,000 - \$200,000, you will file the 990EZ.

# The 990-N, continued

## Information required:

- EIN
- Tax year
- Legal name and address (all names used)
- Name & address of principal officer
- Website, if you have one
- Confirmation of \$50,000 or less in gross receipts

# More to Think About

- Audit - eventually you will be too large to do this on your own.
- Sales tax abatement
- Bulk mail permit
- Property tax abatement (if used substantially for charitable purpose)

# Reminders

What you must do as a nonprofit:

- Remember your core mission and stick to it unless you develop the resources to expand
- Make sure that income, earnings, assets do not enrich board members and staff
- Stay away from excessive lobbying and from political campaigns and from any actions that are ethically questionable
- **KEEP GOOD RECORDS! GOOD LUCK!**