



GRAND VALLEY  
STATE UNIVERSITY

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Dear Friend,

The Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership is pleased to provide this Nonprofit Startup Guide to help establish a nonprofit organization. Please read these materials carefully before attempting to complete any of the forms. If you have any questions after reading these materials, please do not hesitate to call us for further assistance at the number listed above.

*One special note:* It is wise to have the tax-exempt application to the IRS reviewed by an attorney or CPA prior to submission. This could save a considerable amount of time and effort. Expect the IRS review to take approximately three months to complete.

In this guide are the following:

- Reference Index
- Glossary of Key Terms
- Checklist for Organizing a Nonprofit
- First Steps to Creating a Nonprofit Organization
- Steps for Organizing a Nonprofit, Tax-Exempt Organization
- Advantages and Disadvantages of Nonprofit Incorporation
- Steps to Nonprofit Incorporation
- Articles of Incorporation, Bylaws
- Mission Statement Review
- Mission Statement Checklist
- Creating a Business Plan
- Responsibilities of Nonprofit Boards
- Sample Job Description for Board Members
- Board Development Matrix
- Resources

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## GLOSSARY OF KEY TERMS

*This glossary provides definitions of the main concepts addressed throughout the Nonprofit Startup Guide. Utilize this as a springboard for building a foundation to understanding the framework for starting a nonprofit organization.*

**Accounting System:** A system established to record the receipt and expenditure of money in accordance with the bylaws and with the reporting requirements that will be imposed on the organization by funders and governmental units.

**Activity Plans:** Process, tools, events, technology, and actions that are an intentional part of the program implementation. These interventions are used to bring about intended program changes or results.

**Annual Statements:** Documents called upon and evaluated annually including payroll, IRS 990s, and financial statements.

**Articles of Incorporation:** A document filed with the Michigan Department of Consumer & Industrial Services, Bureau of Commercial Services; by persons establishing a corporation. This is the first legal step in forming a nonprofit corporation.

**Board of Directors:** The group of volunteers with the responsibility of governance and supervision of the policies and affairs of the organization, its committees, and its officers. It carries out the mission of the organization.

**Budget:** A detailed breakdown of estimated income and expenses for a specified period of time and/or its programs prepared in advance.

**Business Plan:** A document that defines a business, identifies goals, and explains cash flow and loan repayment plans. A business plan is generally required to receive financing.

**Bylaws:** The rules of internal governance for a corporation as adopted by its board of directors.

**Charitable Solicitation:** The license a nonprofit organization must obtain from the Department of the Attorney General, Charitable Trust Section for solicitation of contributions. The nonprofit is required under Michigan law to register for the appropriate license if it receives or expects to receive, \$8,000 or more per year in contributions, whether raised by in-house staff or outside professionals. Grants from foundations or government agencies are not included in the \$8,000.

**Charitable Trust:** A trust in which all interests (or rights), income interests as well as remainder interests, are devoted to nonprofits. Such trusts are often perpetual and generally, are private foundations under U.S. tax law.

**Employer Identification Number:** An Employer Identification Number (EIN) is also known as a federal tax identification number and is used to identify a business entity. This is also known as a SS-4.

**Federal Tax Exemption:** Formal recognition as a tax-exempt entity that is excused from paying the federal income tax.

**Liability Insurance:** Insurance that provides protection from claims arising from injuries or damage to other people or property.

**Mission Statement:** A philosophical or value statement that answers the questions of why the organization exists, its basic reason for being. A mission statement is not defined in expressions of goals or objectives; rather it reflects a realistic but farsighted determination of what the organization is who it serves, what it does, and what it can accomplish.

**Nonprofit Mail Rates:** Qualified nonprofit corporations can use the United States Postal Service at substantially lower rates than commercial firms or private individuals. Potential savings are considerable when you obtain a special mailing permit for bulk mailings.

**Sales and Use tax exemption:** Tax exemption from sales of tangible personal property to qualified nonprofit organizations for use in qualified activities (not for resale) in organization operations.

**State tax exemptions:** Refers to organizations not required to pay state taxes under state law.

**Tax Exempt:** Refers to a nonprofit organization excused from paying certain taxes such as federal, state corporate tax or state sales tax. Donations to tax-exempt organizations may be tax deductible.

#### **Sources**

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Hopkins, Bruce, The Law of Tax-Exempt Organization. (Hoboken: John Wiley & Sons, Inc., 2003).

Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership, 2002-2004, Nonprofit Good Practice Guide: Complete Glossary, <http://www.johnsoncenter.org>, (accessed 6 December 2004).

Princeton University, Wordnet 2.0 Online database, 2003. <http://wordnet.princeton.edu> (accessed 6 December 2004).

## **CHECKLIST FOR ORGANIZING A NONPROFIT**

*Refer to the following pages for additional details.*

- Determine Name, Purpose, and Structure**
- Draft Activity Plan & Budget**
- Conduct Organizational Meeting**
- Draft and File Form 502 - Articles of Incorporation – Nonprofit and Bylaws**
  - Michigan Department of Consumer & Industry Services
  - Bureau of Commercial Services, Corporation Division
  - P.O. Box 30054
  - Lansing, MI 48909
  - (517) 241-6400
  - <http://www.michigan.gov/businessstartup> (under “Forms Index”)
- Select the Board of Directors**
- File for an Employer Identification Number (EIN) SS-4**
  - Internal Revenue Center
  - Attn: Entity Control
  - Cincinnati, OH 45999
  - 1-800-829-1040
- Determine Fiscal Year and Establish Accounting System**
- Establish Corporate Record Books**
- Begin Program Activities**
- File for Federal Tax Exemption IRS Form 1023 and 1024**
  - Internal Revenue Service
  - TE/GE Determination
  - P.O. Box 192
  - Covington, KY 41012-0192
  - <http://www.irs.gov> (under “Forms 1023 or 1024”)
- Register for Appropriate Charitable Solicitation License**
  - Office of the Attorney General, Charitable Trust Section
  - P.O. Box 30214
  - Lansing, MI 48909-7714
  - (517) 373-1152
  - <http://www.michigan.gov/ag>
- Apply for Nonprofit Mail Rates**
  - Local Post Office
  - <http://www.usps.com>
- Apply for Tax Exemptions**
  - Michigan Department of Treasury
  - Treasury Building
  - Lansing, MI 48922
  - (517) 373-3200
  - <http://www.michigan.gov/treasury>
- Obtain Liability Insurance**
- Prepare Annual Statements & Reports for the State**
- Review Activity Plan & Budget. Revise if necessary.**

## **FIRST STEPS TO CREATING A NONPROFIT ORGANIZATION**

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*Starting a nonprofit organization is a significant undertaking. It requires careful thinking and business planning before you proceed. The Johnson Center is pleased to offer suggestions to help with this process.*

### **Do Your Homework!**

Before creating a nonprofit organization, determine both what the goal is and who else in the community may be doing the same thing. Is there an unmet need? What is your organization going to do to address that need? Is another organization providing the same service within your community? It is essential to answer these questions before undertaking the process of establishing a nonprofit organization. Contact with relevant organizations, including other service providers and funding sources, will help in determining whether there is an unmet community need, as well as, an interest in supporting your efforts to respond to that need. It might not be necessary to create a new nonprofit organization. Your goals and ideas might be incorporated into another existing nonprofit. If you do find another organization providing a similar or identical service, ask: “Are they successful? Can we help them? Would they want to work with us? By working together, is it possible to make a greater impact on the problem?”

It requires a significant amount of time and effort to maintain a nonprofit and fulfill all of the administrative requirements. What resources will be needed to support your nonprofit? How will those resources be acquired (people, money, equipment, information)? How much money will be needed to operate on an annual basis?

### **Establish Your Board**

The **board of directors** is crucial to the success of any nonprofit organization. This board provides clear direction, access to resources, and credibility within the community. The board can ensure that the organization will provide effective services both now and into the future. The organization will achieve its full success with an effective board of directors.

When a nonprofit is formed, the initial group of supporters will often become its first board of directors. It becomes their responsibility to see that the organization is carrying out its mission in a manner that is ethical, effective and economically sound. At this point, the organization is no longer the sole responsibility of the founders and the board of directors becomes legally responsible. Those legal and ethical responsibilities cannot be delegated. When forming a board, carefully consider both interest and expertise desired among the directors, as well as the number of the board members ultimately desired. Additional details regarding the legal responsibilities can be found in Public Law 104-168, Section 4958. A copy can be accessed through the Library of Congress’s Thomas: Legislative Information on the Internet. The address to this site can be found in the resource section.

### **Preparation of Bylaws & Official Documents**

**Bylaws** are the rules that members of an organization agree to follow while carrying out the business of that organization. They are needed to enable an organization to function smoothly and efficiently in working to reach its goals. A poorly organized or inefficient nonprofit will not be effective or able to attract and retain members. In addition, a nonprofit organization will usually be asked to submit a copy of its bylaws when applying for financial support.

Before preparing bylaws and other official documents, you will need to decide if the organization will be membership-based or directorship-based. Furthermore, the organization must decide on its structure by evaluating the advantages and disadvantages of incorporation. This is further explained in the following pages to help guide you through this process and in more detail in these outside resources:

[Getting Started: A Guide to Starting a Nonprofit, Tax-Exempt Organization 501\(c\)\(3\) Public Charity in the State of Michigan](#) by VAST MI, <http://www.vastmi.org>  
[Starting and Running a Nonprofit Organization](#) by Joan Hummel

A list of selected books and websites is also located at the end of this guide and are available at your local library.

### **Complete and Submit Forms to the State and IRS**

All legal forms must be completed and sent to the appropriate government office for approval. In order to minimize time lost due to errors or omissions in the applications, it is wise to have either an attorney or CPA who is familiar with nonprofit regulations review the forms prior to submission. If the IRS discovers any omissions or mistakes, the forms will be returned for revision in approximately 45 days, along with comments. Once the changes are completed, you will need to resend the forms. Status as a nonprofit will generally be approved within three months. Depending on the organization, the total filing costs will range between \$200 and \$550.

## **STEPS FOR ORGANIZING A NONPROFIT, TAX-EXEMPT ORGANIZATION**

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### **Determine Purpose & Structure**

Hold a general and possibly informal meeting to establish a consensus on the purpose and structural form of the proposed organization. Delegate to individuals or committees the responsibility of drafting **bylaws**, filing **articles of incorporation**, planning activities, and developing a **budget** and fundraising plan. Determine if the nonprofit will be membership (the members elect the board) or directorship (the board elects itself).

### **Start Incorporation Process**

File the primary documents including the **articles of incorporation** and the **bylaws**. The filed articles of incorporation will be returned within a few weeks. Remember, the individuals who sign the articles of incorporation are the incorporators. Prepare bylaws that will state the membership/board rights and requirements, the process for selecting board members and officers, the board's duties and powers, and the controls placed on the disbursement of funds.

### **File SS-4**

Federal **Form SS-4** is to obtain an employer identification number (**EIN**). This number is generally required to open a bank account and is the official number for the organization.

### **Draft Activity Plans and Budget**

Prepare **activity plans** to achieve the purpose/mission of the organization with a preliminary **budget** identifying the income and expenses for the beginning two years of operation.

### **Conduct Organizational Meeting**

After the **articles of incorporation** have been filed, hold a more formal organizational meeting for the designated board members to:

- Accept the articles of incorporation as filed;
- Adopt the proposed bylaws with necessary amendments;
- Elect officers pursuant to the bylaws;
- Authorize necessary financial transactions;
- Authorize a person to prepare and apply for tax exemption; and
- Consider the proposed activity plans/budgets and recommend revisions.

### **Determine Fiscal Year**

Establish a fiscal year that ends during a natural break in the organization's activities. If possible, coordinate the end of the fiscal year with major funding sources. The fiscal year must end on the last day of the month.

### **Establish Accounting System**

An **accounting system** should be established to record the receipt and expenditure of money in accordance with the bylaws and with the reporting requirements that will be imposed on the organization by funders and governmental units.

### **Establish Corporate Record Books**

Establish a system for preserving corporate documents such as **articles of incorporation**, **bylaws** and amendments, minutes of board meetings, committee meetings and the meeting(s) of the incorporator(s).

### **Begin Program Activities**

Program activities may be started at any time depending on the solidification of the organization's plans and the availability of resources. However, individual participants are more likely to be held personally liable for organizational debts incurred before incorporation than those incurred after incorporation. Partnerships with strong already existing nonprofits can provide positive outcomes for both parties involved.

### **Additional Employer Registration**

If the organization intends to hire employees, register with the appropriate state and local government agencies for withholdings required for income and unemployment taxes. Also, subscribe to worker's compensation insurance and health insurance for employees. Nonprofit employees are entitled to the same rights and responsibilities as any employee in other organizations and businesses.

### **File or 501(c)(3) Status**

File **Form 1023** application with the IRS to obtain 501(c)(3) exemption of corporate income taxes and the right of deductibility for charitable contributions of donors. This application should be filed within 15 months from the filing of the **articles of incorporation** and at least four or five months before the organization plans on obtaining any grants from foundations or large contributors. There is an application fee to apply for 501(c)(3) status. If an organization's annual revenue is expected to be less than \$5000, the IRS does not require that the 501(c)(3) application be filed.

### **Register as a Charitable Trust**

File an **Initial Charitable Trust/Charitable Solicitation Questionnaire**, a Charitable Trust Registration Statement, and a **Charitable Trust Inventory** with the State within 60 days of the time the organization first receives funds for charitable purposes. United Way agencies, hospitals, and some educational organizations are exempt from this requirement. These forms are located at the Michigan Department of Attorney General's website at <http://www.michigan.gov/ag> (under "Charitable Giving").

### **Solicitation of Small Donations**

Solicitation of small donations and membership may occur before obtaining the 501(c)(3) tax-exemption as long as the donors are willing to risk the organization's inability to qualify for exemptions. If the organization qualifies within 15 months of **incorporation**, the deductibility of donor contributions will be recognized retroactively.

### **Solicit Private Grants**

Solicitation of corporate and foundation grants, as well as large contributions, will require the receipt of the IRS determination letter recognizing the organization's **501(c)(3) tax-exempt status**, in order to receive a tax deduction. Private grants will be difficult to obtain without this status.

### **Revise Activity Plan and Budget**

Revise the organization's **activity plan** and **budget** for the first two years after the organization has had some initial experience with the cost of staff and activities and an opportunity to test funding opportunities. This will help set priorities for the use of resources and will serve as a supporting document for tax exemption applications and for funding proposals. The revised **plan** and **budget** should be submitted to the board (and/or membership) for approval.

### **Apply for Nonprofit Bulk Mail Rates**

Apply for reduced rates at the post office. After receiving IRS recognition as a **501(c)(3) tax-exempt** organization the application process is straightforward.

### **File for Property Tax Exemption**

Apply with the local tax assessor for exemptions from local taxes on any real and personal property held by the organization. These applications should be made before taxes are assessed since obtaining retroactive exemptions is frequently difficult.

### **Sales Tax Exemption**

Applying for sales tax exemption from the State of Michigan is no longer necessary. Instead, complete the **Michigan Sales and Use Tax Certificate of Exemption** for each vendor and keep a copy of the IRS letter recognizing the organization's **501(c)(3) tax-exempt status** on hand. This form can be located at <http://www.michigan.gov/treasury> (under "Business tax forms," "Sales and Use tax exemption 2003," "Form 3372").

### **Obtain Liability Insurance**

Consider insurance policies to cover the organization's property (if it is substantial) and to cover the organization and its directors and officers against possible personal injury suits by clients or guests.

### **Prepare State Annual Statements and Reports**

At the end of the first fiscal accounting year (the first may be less than 12 months), prepare a statement of receipts and expenditures. In addition, the State of Michigan will require a completed **Michigan Nonprofit Corporation Information Update** form on an annual basis. They will provide you with the necessary form due before October 1st of each year. The filing fee is \$10.

### **Source**

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VAST-MI, Getting Started: A Guide to Starting a Nonprofit, Tax-Exempt Organization 501(c)(3) Public Charity in the State of Michigan, 4<sup>th</sup> edition, (Detroit: VAST-MI, 2004).

## **ADVANTAGES AND DISADVANTAGES OF NONPROFIT INCORPORATION**

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### **Organizational Structure**

There are three types of organizational structures for nonprofit organizations: **nonprofit corporations**; **unincorporated associations**; and **trusts**. There are advantages and disadvantages to each of these entities; however, most nonprofit organizations are incorporated due to financial incentives and legal protection. This nonprofit startup guide will focus on incorporated nonprofits and the relative legal documents to begin incorporation. “Steps to Nonprofit Incorporation” follow this discussion.

### **Organizational Formality**

The purpose and structure of an incorporated organization are placed above the personal interests and differences of its members. The nonprofit is accountable and not “owned” by one specific person. With incorporation, a nonprofit group acquires a widely recognized form that carries with it a large measure of legally stipulated structure and procedure.

### **Limited Liability**

There is some, but not complete protection from liability for individual members, directors, and officers. As a legal entity, the nonprofit corporation is liable for debts it incurs and for court judgments against it. But the reach of its creditors and the courts is generally limited to the corporation’s assets. Those affiliated with the corporation (including its founders, directors, officers, members and employees) are not personally liable for the corporations’ debts.

### **Tax-Exemption**

Contrary to popular belief, incorporation cannot be equated with **501(c)(3) status**. Generally, **tax-exempt** entities are nonprofits, but not all nonprofits are tax-exempt entities. To achieve 501(c)(3) status at the federal level, a nonprofit must be in compliance with the Internal Revenue Code relating to tax-exempt organizations. If the qualifications are met, little or none of a nonprofit’s income or assets will be taxable by the federal government resulting in **federal tax exemption**. This also allows contributors to deduct their gifts from their personal income tax liability. In addition, it is possible for nonprofit corporations to avoid local taxes on real and personal property holdings plus other state and local levies including the Michigan Single Business Tax. Tax-exempt 501(c)(3) status is often required for obtaining grants from foundations and government agencies.

### **Low Postage Rates**

Qualified nonprofit corporations can use the United States Postal Service at substantially lower rates than commercial firms or private individuals. Potential savings are considerable when you obtain a special mailing permit for bulk mailings.

### **Exemption from Labor Rules**

In Michigan, nonprofit corporations are exempt from certain unemployment costs as well as certain pension and profit sharing regulations. The possible savings in the operating budget for the nonprofit corporation can be significant. Be sure to discuss this with an accountant or attorney.

### **Continuous Existence**

To a far greater degree than less formally organized nonprofit organizations, the corporation has substance and permanence. For this reason alone, banks and other sources of funding will usually view incorporated nonprofit organizations more favorably than organizations that are not incorporated.

### **Sources**

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Hopkins, Bruce. The Law of Tax-Exempt Organization. (Hoboken: John Wiley & Sons, Inc., 2003).

State of Michigan Online, "Business and Economic Development", 2004, <http://www.mi.gov> (accessed 14 December 2004).

Volunteer Accounting Service Team of Michigan (VAST-MI), Getting Started: A Guide to Starting a Nonprofit, Tax-Exempt Organization 501(c)(3) Public Charity in the State of Michigan, 4<sup>th</sup> edition, (Detroit: VAST-MI, 2004).

VAST-MI, The Michigan Nonprofit Management Manual: A Hands on Guide to Growing Nonprofit Organizations, 4<sup>th</sup> Edition, (Detroit: VAST-MI, 2004).

## STEPS TO NONPROFIT INCORPORATION

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### What is Incorporation?

**Incorporation** is a state process that forms a separate legal entity. It serves to protect the individuals within the group by providing limited liability. The process of incorporation requires careful preparation and filing of certain documents. The process also requires the formation of a board of directors, appointment of officers, adoption of **bylaws** and other procedural requirements (such as, annual meetings). It is highly advisable in the process of incorporating an organization to have the application for tax exemption, corporate documents, articles of incorporation, and bylaws reviewed by an attorney or an accountant prior to submission.

### Arrange for Incorporators

The incorporators are usually the founders of the organization. This does not mean that they must join the **board of directors**, are the owners of the organization, or have any special rights. While arranging for incorporators, note that once the person's name is on **Form 502 – Articles of Incorporation** as an incorporator, the name cannot be changed. The role of the incorporator is to prepare and file the articles of incorporation and to also choose the initial members of the Board of Directors. The incorporator may also adopt the proposed bylaws.

### Complete the Application for Reservation of Name

As soon as the name of the nonprofit organization is decided, it is a good idea to file the name with the *Michigan Department of Consumer and Industry Services* by completing **Form 540 - Application for Reservation of Name**. In that way the name is protected (while making sure that no one else currently has it), as well as, guaranteeing that no one chooses that name before your organization becomes incorporated. The cost is \$10 and the application is located at [www.michigan.gov/businessstartup](http://www.michigan.gov/businessstartup) (under "Forms Index").

### Draft the Articles of Incorporation

**Form 502 - Articles of Incorporation** is the primary legal document for a domestic, nonprofit corporation. The form can be filed in person, by mail, or sent by fax to the State of Michigan. Once prepared, these papers should be signed by the required number of incorporators and returned to the Michigan Department of Consumer and Industry Services. The cost is \$20.00. This provides the State with information on where to contact the organization, its activities, and how it is funded. The statement of purpose within this document is what separates nonprofit from for-profit corporations.

### Select the Board of Directors

In most cases at least three adults who are U.S. citizens serve as the initial **Board of Directors**. The incorporators may also be named as directors but they need only serve in this capacity until the first annual meeting. The Board of Directors includes, but is not limited to, the President, Vice-President, Secretary, and Treasurer.

### Charitable Solicitation

The **Application for License to Solicit Donations** must be completed if a nonprofit organization solicits or receives contributions in Michigan in excess of \$8,000 whether raised by in-house staff or outside professionals. Grants from foundations or government agencies are not included in the \$8,000. Some organizations are exempt from the licensing requirement. To obtain a determination letter deciding whether a license or registration is required, complete the **Initial Charitable Trust/Charitable Solicitation Questionnaire**. Forms should be submitted at least 30 days before solicitation begins. There is no fee. This questionnaire is also used by the Office of the Attorney General, Charitable Trust Section, to create a file with basic information on the organization.

### **Federal Employer Identification Number (FEIN)**

All corporations, whether or not they have employees, need a federal EIN. An organization uses the EIN for identification purposes, much as an individual uses a social security number. By applying for a FEIN, the organization then becomes listed in the IRS computer. If staff is hired, the organization must: keep payroll records; file periodic payroll reports; deposit payroll taxes; fill out a W2 form; obtain employment eligibility verification; maintain reports for each employee; and comply with a number of other state and local requirements as dictated by law. To apply, use **Form SS-4, Application for Employer Identification Number**. If forms are not available at the local IRS office, find information on how to obtain them by calling: 1-800-829-4933 or <http://www.irs.gov> (under Forms “SS-4”).

### **501(c)(3) status**

A nonprofit should apply to the IRS within 15 months after the end of the incorporation date. If you plan to apply for financing for outside contributors, application with the IRS should be within at least four to five months.

**Package 1023: Application for Recognition of Exemption** is for use by organizations defined as charitable under IRS code 501(c)(3). Charitable organizations are those that include relief of the poor and distressed or underprivileged; advancement of religion; advancement of education or science; erection/maintenance of public buildings, monuments, or works; decreasing government burdens and neighborhood tensions; eliminating prejudice and discrimination; defense of human and civil rights secured by law; combating community deterioration and preventing juvenile delinquency.

Other organizations that fall under the 501(a) Internal Revenue Code should refer to **Package 1024 for Application for Recognition of Exemption**. In addition, a few types of organizations are not required to submit specific application forms. Religious organizations are usually exempt automatically without applying and organizations whose gross receipts are normally \$5,000 a year or less are automatically exempt. For more details regarding tax-exempt status, refer to the “Organization Reference Chart” enclosed in **Publication 557** from the IRS entitled, *Tax-Exempt Status for your Organization*. This form is located in the *Resources* section (under Forms) at the end of this guide and also at <http://www.irs.gov>.

Either package requires detailed information about organizational history, projects, fundraising, structure, finances, and copies of articles of incorporation, bylaws, and other important documents. **IRS Form 8718 User Fee for Exempt Organization Determination Letter Request** and the required fee (\$150 if gross receipts will be \$10,000 a year or less, and \$500 if gross receipts will be over \$10,000) must also be enclosed. Note that the entire IRS decision-making process can take anywhere from four months to a year to complete. However, the organization can still accept tax-deductible donations while IRS approval is pending.

Application for tax exemption is complex; therefore, nonprofit leaders who are inexperienced should seek experienced professional review by a CPA or attorney prior to submission. Application forms are available at the websites listed in the **Checklist for Organizing a Nonprofit** and at the end of this guide under resources.

### **Other Tax Exemptions**

It should be noted that the **501(c)(3) status** relates only to federal income tax. If the organization has real estate used in its exempt purpose, contact the taxing authority to obtain a property tax exemption. **Sales and use tax exemptions** are governed by State law. Income that is mission-related to the nonprofit organization is **tax exempt**.

## **Sources**

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Hopkins, Bruce. The Law of Tax-Exempt Organization. (Hoboken: John Wiley & Sons, Inc., 2003).

VAST-MI, Getting Started: A Guide to Starting a Nonprofit, Tax-Exempt Organization 501(c)(3) Public Charity in the State of Michigan, 4<sup>th</sup> edition, (Detroit: VAST-MI, 2004).

## **ARTICLES OF INCORPORATION**

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*Governing document that creates a charitable organization.*

*Used by the State:* Provides the State of Michigan with information on where to contact the organization, its activities, and how it is funded.

*Used by the IRS:* Provides verification of incorporation and IRS tax-exempt status, description of assets, restriction on activities, and dissolution information needed for tax exemption.

### **Content of Articles of Incorporation-Internal functions**

Required:

- Organization name;
- Statement of purpose;
- Membership or directorship structure;
- Assets and financial plan;
- Registered office and agent;
- Name and addresses of all incorporators; and
- Duration of corporation, if not perpetual.

*Optional:*

Distribution of assets, restriction of activities, dissolution/amendment procedures for the Articles of Incorporation and/or bylaws, quorum requirements, indemnification provisions, any procedural details, and limitations on volunteer director liability.

## **BYLAWS**

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*Governing document that states the rules for operation of a charitable organization.*

Recommended:

- Keep bylaws simple, brief, and clear.
- Be internally focused.
- Describe functional roles adopted by the organization for its governance.
- Be specific about your purpose. It defines the mission and provides procedural direction for Board decision-making.
- Bylaws define organizational structure, duties and rights of members, board, and officers, procedures for board deliberations, when and how elections are held, and the way in which meetings are to be called.
- Bylaws are usually written by a committee, adopted by a simple majority, and amended by a two-thirds majority.
- Adopt bylaws, prior to or after filing the articles by majority of incorporators at a meeting, by written means or by the board or members at the first meeting.
- Officers or board members may amend or repeal bylaws or adopt new bylaws at any time.
- Review periodically.

### **Source**

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VAST-MI, *The Michigan Nonprofit Management Manual: A Hands on Guide to Growing Nonprofit Organizations*, 4<sup>th</sup> Edition, (Detroit: VAST-MI, 2004).

## MISSION STATEMENT REVIEW

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A mission statement declares the plan, direction, or grand intent of the organization. Its few words represent the organization's duty to make a difference in the world. The statement is generally short, to the point, and answers the following questions:

- Why do we exist? What is the purpose or essence of this organization?
- Who is the target population that will benefit from our services?
- What do we desire to achieve in the long run?
- What makes us unique among other similar organizations?
- What human needs are compelling our organization?
- Has our mission changed or do we expect it to change in the future?
- What values drive this organization?
- Where will we focus our services?
- How will the services be delivered?

A mission statement should be understandable, supportable, and motivational. The statement focuses on the results of the organization, not the activities that propel it to the accomplishment of those results. In other words, the mission statement focuses on why, not how.

Review the organization's mission statement against the following questions:

### **Clarity**

Is the mission stated simply enough for everyone to understand it?

### **Compelling**

Does it evoke action? Is it likely to strike a responsive chord for most readers?

### **Unique**

Does this statement position the organization apart from others? Does it convey the unique attributes, services, or products of the organization?

### **Transformational**

Is it a guide to what the organization desires to be or become? Does it address the "mega-ends" of the organization?

The mission statement should focus on the change that the organization would like to see occur. It should be a goal that stretches the potential of the organization and is still feasible to achieve within a given period of time. Furthermore, it functions as an aid for decision-making and management. It also provides funding sources, community members, and volunteers with valuable and concise information that can be used in deciding future affiliations with the organization.

### **Sources**

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Epsy, Alice, Peter B. Manzo, Get Ready-Get Set: What you need to know before starting a nonprofit, (California: Center for Nonprofit Management, 2001).

Brinckerhoff, Peter C., Mission-Based Management: Leading your not-for-profit in the 21<sup>st</sup> Century, (New York: John Wiley & Sons Inc., 2000).

## MISSION STATEMENT CHECKLIST

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### **Ends, Not Means**

Does the mission statement concentrate on the difference the organization will make for the target population? It should not simply describe the activities of the organization. It is necessary for the mission to deal with the world outside of the organization and not just the organization itself.

### **Effort**

Does the language used in the mission statement invoke action to produce success? A mission statement should use words like *try*, *seek*, *influence*, or *encourage* that organize the activities of staff around effort rather than results.

### **Verbs**

Are there verbs that do not figure prominently in the mission? Eliminate verbs that focus on what is happening instead of the intended outcome. Excessive verbiage can clutter the message.

### **Wording**

Does the mission statement use correct and current language? Be cautious of nouns like advocacy, education, program, and service. They imply a method rather than an outcome.

### **Brevity**

Is the mission statement too long? Does rambling make it taxing to find the main idea? A lengthy, multi-paragraph statement will weaken its ability to lead and mold your organization. Ideally a mission could be stated in one sentence, but around 50 words is a good goal.

### **Accuracy, Not Cosmetics**

Is the mission accurate? It should not make your intentions sound better, loftier, more extensive, or more glamorous than they are. All other goals and policies are built from the mission statement, therefore accuracy is key.

### **Too Broad or Too Narrow**

Does the mission statement project the ends of your organization too broadly? Does it contain unrealistic goals? Try not to be too broad but remember to cover the range of effects you intend.

### **Net Value Added**

Federations, membership organizations, or boards having authority over other boards, should have mission statements that address additional results intended beyond what the members or subsidiaries would have produced themselves.

### **Relation to Other Boards**

How does the mission statement compare to others? Within your community, it is important to consider the mission in light of other organizations' missions. Without the frequent communication between boards, organizations of similar location risk serving a disjointed patchwork of ends.

The mission statement should be seen everywhere. It should be included on the wall, annual reports, marketing materials, and on the table during board and staff meetings. It cannot be repeated too often.

### **Sources**

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Carver, John, *Carver Guide 6: Creating a mission that makes a difference*. (San Francisco: Jossey-Bass, 1997).  
Brinckerhoff, Peter C., *Mission-Based Management: Leading your not-for-profit in the 21<sup>st</sup> Century*, (New York: John Wiley & Sons Inc., 2000).

## **CREATING A BUSINESS PLAN**

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*A Business Plan is a logical, easy to understand blueprint of your organization that explains what you intend to do, why you feel compelled to do it, and how you will accomplish it. Developing a thorough and organized business plan will help to anticipate the future and make well informed decisions.*

Sound business plans include descriptions of the following:

### **Program**

- What services/goods will you provide?
- Who is the target of these services/goods?
- What convinced you there is a need?
- Why can you do this better than anyone else?
- What do you do extremely well?
- How can you relate this to a thriving organization?
- What changes will occur if you succeed?
- What are the short and long term goals and how will they be monitored?

### **Operations**

- Who will govern this organization?
- How will you provide your services/goods?
- Who will provide the services/goods?
- When will these services/goods be accessible?
- Where will these services/goods be produced?
- Where will these services/goods be accessible?

### **Financing**

- What will it cost to provide the goods/service?
- Will there be a fee for users?
- Where will the financial support be found?
- How will you meet financial needs in the future?
- What are the risks?

The creation of a well-written business plan forces the founders of the organization into a realistic examination of what they hope to accomplish, fleshes out a strategic vision, and enables them to share that vision with investors and users in a clear and organized manner.

While preparing this plan, any additional pieces of information (i.e., your organization's mission statement, the history of this issue as a local problem, any relevant research about current service provision or need, copies of any financial documents, etc.) could be attached for constructing a more in-depth and comprehensive business plan.

### **Samples relevant to business plans for nonprofit organizations are available at:**

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*United States Small Business Administration (SBA), Starting Your Business,*

[http://www.sba.gov/starting\\_business/planning/basic.html](http://www.sba.gov/starting_business/planning/basic.html)

*SBA Online Women's Business Center, <http://www.onlinewbc.gov>*

*Entrepreneur.com, Solutions for Growing Businesses, <http://www.entrepreneur.com>*

## RESPONSIBILITIES OF NONPROFIT BOARDS

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### Legal Responsibilities

#### *Duty of Care*

“The duty of care requires the board of directors of a nonprofit organization be reasonable and **informed** about the organization’s activities, **participate** in decisions, and do so in good faith and with the care of an ordinarily **prudent person** in similar circumstances” (Hopkins, 2003). Board members owe the duty to exercise reasonable care when making a decision as a steward of the organization.

#### *Duty of Loyalty*

“Duty of loyalty requires board members to exercise their power **in the interest of the organization** and not in their own interest or the interest of another entity, particularly one in which they have a formal relationship” (Hopkins, 2003). Board members can never use information obtained as a member for personal gain, but must act in the best interests of the organization.

#### *Duty of Obedience*

“Duty of obedience requires that directors of a nonprofit organization **comply with applicable federal, state, and local laws**, adhere to the **organization’s bylaws**, and remain the **guardians of the mission**” (Hopkins, 2003). They are not permitted to act in a way that is inconsistent with the central goals of the organization. A basis for this rule lies in the public’s trust that the officer will manage donated funds to fulfill the organization’s mission.

### Basic Responsibilities

According to Richard T. Ingram (2003), the 10 responsibilities of nonprofit boards are to:

#### *Determine the organization's mission and purpose*

A statement of mission and purposes should convey the organization’s goals, means, and primary constituents served. It is the board’s responsibility to create the mission statement and review it periodically for accuracy and validity.

#### *Select the executive*

A consensus on the chief executive’s responsibilities must be reached by the board. The most qualified person for the position must be sought through a careful, thorough search.

#### *Support and review the chief executive’s performance*

The board should guarantee that the chief executive has the moral and professional support he or she needs to advance the goals of the organization. Chief executive evaluations should be performed regularly.

#### *Ensure successful organizational planning*

As stewards of an organization, boards must actively participate with the staff in an overall planning process and help in executing the plan’s goals.

#### *Ensure adequate resources*

One of the board’s principal responsibilities is to provide sufficient resources for the organization to fulfill its mission.

#### *Guarantee legal and ethical integrity and maintain accountability*

Ultimately, it is the board’s responsibility to ensure adherence to ethical norms and legal standards.

*Determine and monitor the organization's programs and services*

It is the board's role to determine what programs are consistent with the mission of the organization and to monitor their success.

*Enhance the organization's public image*

An organization's primary link to the community, including constituents, the public, and the media, is the board. Clearly articulating the organization's mission, accomplishments, and goals to the public, as well as garnering support from important members of the community, are important elements of a comprehensive public relations strategy.

*Provide proper financial oversight*

The board should ensure that proper financial controls are in place along with developing the annual budget.

*Recruit and familiarize new board members and assess board performance*

All boards must periodically and comprehensively evaluate performance. In addition, it is a board's responsibility to articulate qualifications for candidates and orient new members.

**Sources**

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Hopkins, Bruce R. JD, LL.M., Governance Series 5: Legal Responsibilities of Nonprofit Boards, (Washington D.C.: BoardSource, 2003).

Ingram, Richard T., Governance Series 1: Ten Basic Responsibilities of Nonprofit Boards, (Washington, D.C.: BoardSource, 2003).

## **SAMPLE JOB DESCRIPTION FOR BOARD MEMBERS**

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Members of the **board of directors** are usually volunteers (whether appointed or elected). Upon accepting membership to the board, each member becomes responsible for the activities, purpose, and effectiveness of the organization.

### **Job Requirements**

Board members support the organization's services, goals, and interests. They must be willing to invest sufficient time, energy, and resources to fulfill all responsibilities. Specific knowledge or interest in at least one of the following areas should be taken into consideration: management and administration; fund raising/finance; personnel; developing new programs; advocacy; and community needs/concerns. Specific board positions will also list additional tasks or responsibilities.

### **Job Responsibilities**

According to Gary Snyder (2003), there are five fundamental responsibilities for which the board has a fiduciary charge. The board:

- determines the organization's mission and vision.
- hires and evaluates the executive director.
- maintains the financial integrity of the organization.
- provides program oversight and support.
- is responsible for fundraising.

#### *Sample Board Member Job Description:*

Richard T. Ingram, in *Ten Basic Responsibilities of Nonprofit Boards*, states that the obligations of board service are considerable. Among the expectations for individual board members are to:

- attend all board and committee meetings
- review all agenda materials in advance of the meeting
- keep board deliberations confidential
- complete new board member orientation
- abide and support the vote of the majority (recognize that the Board Chair and President/CEO are the primary spokespersons for the board)
- avoid conflict of interest situations of perceived conflicts and withdraw from conversations/avoid voting where conflicts may exist
- play an active role in supporting the organization and the CEO
- refrain from interfering with day-to-day management responsibilities and accountabilities
- represent the board and not any specific constituency (i.e. gender, occupation, race, etc.)

### **Source**

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Ingram, Richard T., *Governance Series 1: Ten Basic Responsibilities of Nonprofit Boards*, (Washington, D.C.: BoardSource, 2003).

Snyder, Gary, "Governance," in *The Michigan Nonprofit Management Manual: A Hands on Guide to Growing Nonprofit Organizations* (4<sup>th</sup> Edition), ed. Volunteer Accounting Service Team-Michigan (Detroit: VAST-MI, 2003), 101-103.

**SAMPLE BOARD DEVELOPMENT MATRIX**

The governance or nominating committee can use a matrix to identify the strengths of current board members and to set priorities for qualities and characteristics that new candidates should have. The following sample suggests factors that may be appropriate. Each organization should develop its own set of factors. Mark the strengths each board member possesses in the column below his or her initials.

|                                     | BOARD MEMBERS' INITIALS |  |  |  |  |  |  |  |  |  |  |  | CANDIDATES' INITIALS |  |  |  |  |  |
|-------------------------------------|-------------------------|--|--|--|--|--|--|--|--|--|--|--|----------------------|--|--|--|--|--|
|                                     |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| <b>COMMUNITY CONNECTIONS</b>        |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Corporate                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Social                              |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Philanthropic                       |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Media                               |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Professional                        |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Religious                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| <b>QUALITIES</b>                    |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Leadership                          |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Willing to Work                     |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Commitment to Mission               |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| <b>STYLE</b>                        |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Collegial                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Visionary                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Practical                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| <b>EXPERTISE</b>                    |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Management                          |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Public Relations                    |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Law                                 |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Government                          |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Marketing                           |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Strategic Planning                  |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Fundraising                         |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| Technology                          |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |
| <b>NUMBER OF YEARS ON THE BOARD</b> |                         |  |  |  |  |  |  |  |  |  |  |  |                      |  |  |  |  |  |

**Source**

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## RESOURCES

### FORMS

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Act 169 of 1975 Charitable Organizations and Solicitations Act

<http://www.gvsu.edu/philanthropy/startup.htm>

Articles of Incorporation For Use by Domestic Nonprofit Corporations

<http://www.michigan.gov/businessstartup> (under “Forms Index”)

Form 8718, User Fee for Exempt Organization Determination Letter Request

<http://www.irs.gov/> (under “Forms and Publications” type in “8718”)

Initial Charitable Trust/Charitable Solicitation Questionnaire

<http://www.michigan.gov/ag> (under “Charitable Giving”)

Package 1024 Application for Recognition of Exemption Under Section 501(a)

<http://www.irs.gov/> (under “Forms and Publications” type in “1024”)

Package 1023 Application for Recognition of Exemption Under Section 501(c)

<http://www.irs.gov/> (under “Forms and Publications” type in “1023”)

Publication 557, Tax-Exempt Status for Your Organization

<http://www.irs.gov/> (under “Forms and Publications” type in “557”)

SS-4, Application for Employer Identification Number

<http://www.irs.gov/> (under “Forms and Publications” type in “SS-4”)

### BOOKS

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Andringa, Robert C. Nonprofit Board Answer Book II Beyond the Basics. Boardsource, 2002.

Brinckerhoff, Peter C. Mission-Based Management: Leading your not-for-profit in the 21<sup>st</sup> Century. New York: John Wiley & Sons Inc., 2000.

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Dambach, Charles F. Governance 3 Series: Structures and Practices of Nonprofit Boards. Washington D.C.: BoardSource, 2003.

Epsy, Alice, Peter B. Manzo. Get Ready-Get Set: What you need to know before starting a nonprofit. California: Center for Nonprofit Management, 2001.

Hopkins, Bruce R. JD, LL.M. Governance 5 Series: Legal Responsibilities of Nonprofit Boards. Washington D.C.: BoardSource, 2003.

Hopkins, Bruce. The Law of Tax-Exempt Organization. Hoboken: John Wiley & Sons, Inc., 2003.

Ingram, Richard T. Governance 1 Series: Ten Basic Responsibilities of Nonprofit Boards. Washington, D.C.: BoardSource, 2003.

VAST-MI. Getting Started: A Guide to Starting a Nonprofit, Tax-Exempt Organization 501(c)(3) Public Charity in the State of Michigan, 4<sup>th</sup> edition. Detroit: VAST-MI, 2004.

VAST-MI. The Michigan Nonprofit Management Manual: A Hands on Guide to Growing Nonprofit Organizations, 4<sup>th</sup> Edition. Detroit: VAST-MI, 2004.

## **WEBSITES**

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Alliance for Nonprofit Management <http://www.allianceonline.org>

Aspen Institute <http://www.aspeninstitute.org>

BoardSource <http://www.boardsource.org>

Community Technology Centers' Network <http://www.ctcnet.org>

Council of Michigan Foundations <http://www.cmif.org/trustresources.htm>

Dorothy A. Johnson Center for Philanthropy and Nonprofit Leadership <http://www.johnsoncenter.org> and <http://www.npgoodpractice.org>

Entrepreneur.com <http://www.entrepreneur.com>

Foundation Center <http://www.fdncenter.org>

Georgia Center for Nonprofits <http://www.nonprofitgeorgia.org>

The Grantsmanship Center <http://www.tgci.com>

Innovation Network: <http://www.innonet.org>

Johnson Center for Philanthropy and Nonprofit Leadership, Nonprofit Startup Guide  
<http://www.nonprofitbasics.org>

Management Assistance Program <http://www.mapfornonprofits.org>

Michigan Nonprofit Association <http://www.mnaonline.org>

Nonprofit Enterprise at Work (NEW) <http://www.new.org>

Thomas: Legislative Information on the Internet <http://thomas.loc.gov>

United States Small Business Administration [http://www.sba.gov/starting\\_business/planning/basic.html](http://www.sba.gov/starting_business/planning/basic.html)

United States Small Business Administration Online Women's Business Center  
<http://www.onlinewbc.gov>

Volunteer Accounting Service Team of Michigan (VAST-MI) <http://www.vastmi.org>