

The Things You Gotta' Do to Start a Nonprofit Organization

Introduction

Many people who think about starting a nonprofit are unaware that they will be starting a small business with all the needs that a successful business entails.

While the primary purpose to be accomplished by a nonprofit is its mission -- whether it is feeding the disabled or putting on theater performances -- anyone who forms a nonprofit will soon realize that they are also running a business and in order to achieve their mission they must run their business well.

These needs range from the concrete -- setting up financial systems, payroll and opening a bank account; hiring staff and preparing a personnel manual; buying the right kinds of insurance -- to the conceptual -- organizational structure, mission statements, long-range planning, evaluation, etc. (some of which you will find addressed in the [Information Databank](#) section of our web site).

For years NPCC has been getting calls from people planning to start nonprofits asking what needs to be done. Often there is much that they do not know about or have even considered. Some believe that most of what is entailed is legal -- forming a corporation, obtaining a tax exemption and the like. There is, however, much more than just the legal aspects, and in fact a good deal of the legal requirements are fairly simple when compared some of the other things that need to be done.

In an effort to provide answers to those seeking help, NPCC has created this web page. While this information was designed primarily for those wishing to start a new organization, it may also be useful to existing groups who want to make sure that all the bases are being covered.

The Checklist provides a list of all the things that need to be done to set up the "office" part of a nonprofit. We have used a checklist form on the belief that a long discursive text explaining the technical matters that need to be addressed would not hold the interest of many. In addition, if there are only a few areas that one is seeking help on, finding the sought material in a long text can be difficult.

If funding can be secured, NPCC's plan is to add a second part to this web page which would provide a brief explanation of each item listed in the checklist, as well as reference to texts, forms, websites and other material that will be useful in implementing the particular items of the list.

This web page should also serve as a reality check. When it is realized that for even the smallest nonprofit there are a number of systems for recording information that need to be set up and reports that have to be filed with the government; that there are myriad aspects to payroll (taxes, withholding, forms reports, etc.); that health insurance and workers compensation will have to be secured for the staff; that the details of the Family Medical Leave Act and the Consolidated Omnibus Budget Reconciliation Act (COBRA) need to be mastered; and much more, second thoughts about the desirability of going forward may emerge.

For those who individuals who don't like to read or are in a rush to see what must be done, we suggest that you skip to the beginning of the check list. You may want to come back to the following paragraphs later.

To complete this introduction, we offer a very brief overview of some of the essentials in starting a nonprofit office. Obviously a bank account needs to be established and choosing the right kind of account requires some research. Financial systems needs to be instituted with someone designated to serve the function of the organization's financial officer. Setting up a financial system includes establishing a chart of accounts, a general ledger and a bookkeeping system to account for cash receipts and disbursements. Part of this would include selecting the appropriate financial software which in turn assumes you have developed an adequate computer system.

Next you might focus on your staff needs. This will entail developing job descriptions; getting an Employer Registration Number and a Labor Department Number from the New York Department of Labor; establishing a payroll system and complying with the federal, state and city withholding requirements, with the quarterly payment requirements and with the various payroll reporting requirements. In addition, you will need to initiate a mandatory system for maintaining records for each employee which would include her name and social security number, her W-4 and I-9 forms, and much else. Furthermore, you will have to arrange for workers compensation, unemployment insurance and short-term disability insurance.

Finally, today virtually every office should be able to take advantage of information technology. This means installing a voice mail system, and the necessary computer and modem hardware to enable you execute electronic transfers of taxes, deposits, fund transfers, payroll, etc.; maintain and coordinate data bases; engage in e-mail communications; and have access to the World Wide Web via the Internet.

There is, of course, much else to setting up an office that you will find on the checklist. The three succeeding paragraphs are merely illustrative and are meant to give the reader some flavor of what is involved.

While it is our belief that the checklist is fairly complete, it is possible that there are some issues that were forgotten. We would appreciate being informed about these omissions. Drop us a line at the address above or send us an email.

A final note on *The Checklist*. While the following items do not have to be done successively (and you may in fact find that some of these items are already done) there are some things that are dependent on others being accomplished.

The Checklist

1. Reserve a name with New York's Secretary of State, Division of Corporations. Go to www.dos.state.ny.us/corps/dom_nfpfile.html.
2. Select individuals to serve on its board of directors.
3. Designate officers to serve on the board.
4. Develop a mission statement.
5. Develop a nonprofit operating plan, which is like a business plan for nonprofit organizations, and includes a description of the organization's location, staffing, activities, funding, fundraising plan and budget.
6. Establish board committees (e.g., executive committee; finance committee; fundraising committee; volunteer committee; etc.).
7. Create by-laws.
8. Retain a bookkeeper to create accounting records and financial reports.
9. Retain an accountant for annual audit and mandatory government filings.
 - Organizations with gross revenues greater than \$250,000 must undergo a financial audit by an independent CPA. Those with revenues between \$100,000 and \$250,000 must file a CPA's review report. Those with revenues below \$100,000 are not required to retain a CPA, but must submit a financial report certified by its board with its CHAR 500 to the NYS AG's office.
10. Incorporate or form a trust to protect its founders and principals from personal liability: www.dos.state.ny.us or www.dos.ny.gov/corps/index.html or www.dos.ny.gov/corps/nfpcorp.html#certinc.
11. Hold its first corporate meeting and elect corporate directors and officers and adopt corporate by-laws.

12. Apply to IRS for an employer identification number (E.I.N.):
www.irs.gov/businesses/small/article/0,,id=98350,00.html
13. Establish a bank account and establish check signing procedures -- see 14 below.
14. Designate which officer(s) have the power to sign checks.
15. Apply for IRS 501(c)(3) tax exempt status (IRS Form 1023) and receive IRS Determination Letter or advanced ruling letter: www.irs.gov. All organizations that have gross receipts of \$5,000 or more must receive an IRS Determination Letter.
 - Organizations with gross receipts greater than \$25,000 (on a three year average) must file IRS Form 990 annually. Those with gross annual revenues of less than \$100,000 may file Form 990 EZ. Beginning in 2007, those with receipts of less than \$25,000 will be required to complete an online filing with the IRS. Organizations having \$1,000 or more in income from activities unrelated to their tax exempt purpose (UBIT) must file Form 990 T. IRS forms and instructions are at www.irs.gov.
16. File for state and local tax exemptions: from New York State corporate tax (Form CT-247 at www.tax.state.ny.us/pdf/2005/fillin/corp/ct247_805_fill_in.pdf); New York State and local sales tax (Form ST-119.2 at www.tax.state.ny.us/pdf/2008/fillin/st/st119_2_1108_fill_in.pdf); and the New York City General Corporation Tax. A variety of other exemptions are also available, if applicable, including exemptions from state and local property tax and from certain New York City water and sewer charges. If the organization owns real estate, it should apply for property tax exemption by filing the Exemption From Real Estate Taxation for Property for Property Owned by Nonprofit Organizations form available at www.nyc.gov/html/dof.
17. Register with the Charities Bureau of the Attorney General's Office (Form CHAR 410): www.CharitiesNYS.com/pdfs/char410.pdf.
 - Annually, thereafter, the organization must file Form CHAR 500 with the AG's office. Forms and instructions for the Charities Bureau of the New York State Attorney General are at www.CharitiesNYS.com/charindex_new.html.
18. Obtain an Employer Registration Number (ERN) from New York State for reporting unemployment insurance, withholding and wage data Download Form NYS-100 from www.tax.state.ny.us.
19. Establish financial management, auditing and internal control systems.
20. Set up a chart of accounts to record financial transactions.

21. Establish a general ledger and bookkeeping system (either manual or computerized) to account for cash receipts and cash disbursements, assets and liabilities.
22. Compose job descriptions for staffing needs.
23. Hire staff and sets compensation levels.
24. Prepare a personnel manual.
25. Establish a payroll system (manual or automated), including: (a) Withholding requirements (federal, state & city); (b) Requirements for payment of funds withheld (federal, state & city); (c) Reporting requirements for funds withheld (federal, state & city).
26. Determine whether individuals performing services for it are employees or independent contractors.
27. Establish a system for preparing and filing Form W-2s for employees and 1099s on behalf of independent contractors.
 - W-2s and 1099s: Employers or their payroll service must provide W-2s for each employee, and 1099s for independent contractors paid \$600 or more in a calendar year. IRS Form 1096 correlates to 1099 information, and Form W-3, Transmittal of Wage and Tax Statements, covers W-2 data. IRS forms are at www.irs.gov.
 - If you have payroll, you must remit Federal and FICA (employer and employee) withholding payments, and NYS/NYC withholdings. The filing frequency is based on the size of your payroll. A reputable payroll service provider can provide this service and will assume the liability for failure to pay withholdings.
28. Establish a mandatory system for maintaining records for each employee which include (1) names and social security numbers, (2) W-4 and I-9 forms, and (3) for each payroll period the: (a) beginning and ending dates, (b) the days (weeks, etc.) each employee worked and the earnings for each day (week, etc.) and (c) all payments made to the employee, including bonuses and vacations.
 - I-9's: Employees must complete and submit Form I-9, Employment Eligibility Verification, within 3 days of employment to their employers. I-9s are not filed with the U.S. government. Employers are required to retain I-9s for up to 3 years. Go to US Citizenship & Immigration: www.uscis.gov.
29. Establish a system to meet mandatory insurance requirements: (1) Workers' Compensation, (2) Unemployment insurance, (3) Short-term Disability, (4) Auto Liability (if applicable), and (5) [Others].

– New York State law requires employers to provide short term disability and workers' compensation coverage to employees. Many organizations obtain these coverages through the New York State Insurance Fund, although there are alternatives. The State Insurance Fund is at www.nysif.com.

– Unemployment Insurance payments are based on gross payroll and are remitted quarterly to the NYS Unemployment Insurance Division. Nonprofits are exempt from Federal Unemployment Tax. The NYS Unemployment Insurance division is at www.labor.state.ny.us/ui/ui_index.shtm.

30. Procure necessary insurance coverage: general liability, property, professional responsibility (if applicable), sexual abuse (if applicable) and non-owned auto liability (if applicable).
31. Determine whether Directors & Officers (D&O) liability insurance is needed. See *Directors and Officers Liability Insurance: Do all nonprofit organizations need Directors and Officers Liability Insurance?* at www.npccny.org/info/oi2.htm for guidance.
32. Establish a system for providing receipts for donations to comply with IRS substantiation requirements. Download IRS Publication 1771, *Charitable Contributions Substantiation and Disclosure Requirements*, at www.irs.gov/pub/irs-pdf/p1771.pdf.
33. If the organization is getting donations and giving something in return, the organization should create a “quid pro quo” disclosure statement informing donors that the amount of the contribution that is tax deductible is limited to the difference between the amount of the contribution and the value of goods or services received in exchange (which should be estimated in a document given to the donor).
34. Procure health benefits for employees.
35. Establish a retirement plan for employees.
36. Rent or purchase office space.
37. Leases a postage meter and apply for a nonprofit permit number in order to mail at the reduced nonprofit bulk rate.
38. Lease or buy computer equipment that is capable of email and accessing the internet.
39. Lease or buy office equipment: copy machine, fax machine, desks, chairs, file cabinets, conference room tables and chairs, coffee maker, etc.

Additional Resources:

Forming a Not-for-Profit Corporation in New York State:
www.dos.state.ny.us/corps/index.html

The IRS has information, guidance, and forms at
www.irs.gov/charities/charitable/article/0,,id=122670,00.html.

Idealist offers tips on starting a nonprofit and other resources at
www.idealist.org/info/Nonprofits/Startup1 and www.idealist.org/info/Nonprofits.

From Vision to Reality: A Guide to Launching a Successful Nonprofit Organization (\$30) from Community Resource Exchange at www.crenyc.org.

12 Tutorials from the Foundation
Center: <http://fdncenter.org/getstarted/tutorials/establish>.

Getting Organized: A manual published by Lawyers Alliance for New York for attorneys representing organizations (\$90): www.lawyersalliance.org. Lawyers Alliance also has guidance at www.lawyersalliance.org/pdfs/GO_Chap7_Insert.pdf.

The Charities Bureau of the Office of New York State Attorney General offers *Procedures for Forming and Changing Not-for-Profit Corporations in New York State* at www.CharitiesNYS.com/pdfs/how_to_incorporate.pdf, *Right From the Start: Responsibilities of Directors and Officers of Not-for-Profit Corporations* at www.oag.state.ny.us/publications/Right%20from%20the%20Start%20booklet%2009.pdf, and other publications at www.oag.state.ny.us/bureaus/intergov_affairs/publications.html and at www.CharitiesNYS.com/guides_advice_new.html.