CREATING A

NONPROFIT

A Step-by-Step Guide to Forming a Nonprofit Organization

VISIONARY STAGE → PLANNING STAGE → FEDERAL FILING → STATE FILING → ANNUAL FILING

Table of Contents

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Foreword

Know Your Options

Starting and operating a new nonprofit is costly and requires much time and effort. It is important to weigh all your options before committing to starting the process.

Consider the following questions:

- Is there an existing nonprofit that I can partner with to reduce the cost/time of starting a new one?
- Is there an existing nonprofit that has a similar mission?
- Do I have the time and resources to create my own nonprofit?

Alternatives to Starting a Nonprofit[1]

- **Join an existing nonprofit or effort in your area.**
    - Contribute your time as a volunteer, board member, or staff member.
- **Create a special program of an existing effort.**
    - Look at the list of nonprofit organizations active in your area, identify a few most compatible with your ideas, and meet with them to explore creating a special project or initiative and negotiate your involvement.
- **Start a local chapter of a national or regional organization.**
    - Explore the list of national organizations in the area of your interest and see if a local chapter is needed in your area.
- **Maintain an unincorporated association.**
    - If your effort is local and small, consider remaining unincorporated – have meeting and activities, but skip reporting requirements.
        - ***NOTE***: Donations are not tax-deductible if you are unincorporated operating as a nonprofit. Remaining unincorporated may create personal liability; incorporation generally limits liability to organizational assets.
- **Find a fiscal sponsor for your organization.**
    - Fiscal sponsorship is a way to receive tax-deductible contributions by using the tax exempt status of another organization as an umbrella.
    - Fiscal sponsors provide accounting and administrative services, strategic planning guidance, and often co-locate.

[1] Alternatives to Starting a Nonprofit - Minnesota Council of Nonprofits

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

- Fiscal sponsorship is a complex, individualized process. It is recommended that both parties consult with legal professionals to ensure their interests are protected.

Pros and Cons of Obtaining 501(c)(3) Tax Exemption Status[2]

Pros:

- **Tax Exemption/Deduction:** Eligible public charities may be exempt from federal corporate income tax and similar state or local taxes. Donations may be tax-deductible.
- **Eligibility for Private and Public Grants:** Tax-exempt status can improve eligibility for private and public grants.
- **Formal Structure:** A nonprofit is a separate legal entity with a mission-driven structure.
- **Limited Liability:** Liability is generally limited to the nonprofit's assets.
- **Lower Postal Rates:** Eligible nonprofits may qualify for reduced USPS bulk mailing rates.
- **Access to Lobbying:** 501(c)(3) public charities may lobby within federal limits; a 501(h) election can clarify allowable spending.

Cons:

- **Initial and Ongoing Costs:** Formation and exemption applications require time, fees, and often professional support.
- **Ongoing Paperwork:** Nonprofits must keep records and meet annual state and IRS filing deadlines.
- **Shared Control:** Control is shared under law, bylaws, articles, and board governance.
- **Public Scrutiny:** Nonprofit finances and filings are generally open to public review.

[2] Benefits and Disadvantages of Obtaining 501(c)(3) Tax Exemption - Minnesota Council of Nonprofits

Nonprofit Formation in Five Stages[3]

A five-stage pathway from initial vision through ongoing annual compliance.

1. VISIONARY
Define mission, purpose, initial leadership, and core charitable activities.

↓

2. PLANNING
Develop bylaws, board structure, budget, conflict policies, and operating plans.

↓

3. FEDERAL FILING
Obtain EIN and pursue federal tax-exempt recognition, as applicable.

↓

4. MN FILING
Complete Minnesota formation and state registration requirements.

↓

5. ANNUAL FILING
Maintain compliance through IRS, Minnesota Attorney General, Secretary of State, and related annual filings.

[3] Starting a Nonprofit – Minnesota Council of Nonprofits

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Stage 1: The Visionary Stage

Step 1: Decide on Purpose and Mission of the Organization

- The purpose of a charitable nonprofit must be for the public interest and common good.
- Analyze and identify the scope, audience, and impact on society your organization will have.
- **Create a mission statement** (25 words or less) describing the organization's goals and aspirations – use this to guide the organization through formation, future development, growth, and change.

Prompt**	Your Answer
What problem or need will the nonprofit address?	[Insert answer]
Who will benefit from the nonprofit's work?	[Insert answer]
What services, programs, or activities will be offered?	[Insert answer]
What geographic area will the nonprofit serve?	[Insert answer]
What existing organizations do similar work, and how will this nonprofit differ or collaborate?	[Insert answer]

Step 2: Recruit Your Founding Board

- The board is responsible for governance, oversight, and protecting the nonprofit's mission. Choose people who understand the community need and can contribute skills such as finance, fundraising, legal, program design, operations, or community outreach.
- ***NOTE***: The board must consist of at least **three (3)** members.
    - Conflicts of interest are important to consider at this stage.
    - A conflict of interest exists when a board member has financial or other interests in a matter they are authorized to decide.

Board Member	Role/Officer Position	Skills or Community Connection
[Name]	[Chair/President/etc.]	[Insert skills]
[Name]	[Treasurer/etc.]	[Insert skills]
[Name]	[Secretary/etc.]	[Insert skills]
[Name]	[Additional Members]	[Insert skills]

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Step 3: Organization Name Selection

- Select a name that reflects the mission and is distinguishable from existing organizations in the state of formation.
- Potential names for a new business or nonprofit can be checked through the Minnesota Secretary of State's Office to see if they're already taken.

Stage 2: The Planning Stage

Step 4: Draft Articles of Incorporation

- This document is a legal record of how the organization is to be managed, and formally names the entity, purpose, and location.
- Articles of Incorporation **must** include:
  - Name of the organization
  - Address of the organization
  - Address of the incorporator
  - Statement indicating organized under MN Statute 317A
    - This means the organization is being created under Minnesota's nonprofit corporation law.
- ***NOTE***: It is necessary to write and file Articles of Incorporation **before** applying for tax-exempt status from the Internal Revenue Service (IRS).
- Sample Articles of Incorporation – **Feel free to use this as a template!**

Articles Item	Your Draft Information
Organization/corporation name	[Insert name]
Registered office/registered agent	[Insert details]
Nonprofit purpose	[Insert charitable, educational, religious, scientific, literary, or other exempt purpose]
IRS purpose clause included?	[Yes/No]
IRS dissolution clause included?	[Yes/No]
Incorporator name and address	[Insert details]
State filing date	[Insert date]
State confirmation/file number	[Insert number]

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Step 5: Incorporate as Nonprofit Organization

- File the Articles of Incorporation with the Minnesota Secretary of State's Office.
    - The filing fee is $90 for expedited service in-person and online filings and $70 if submitted via mail.
- Once the Articles are filed, the organization will receive a Certificate of Incorporation from the MN Secretary of State's Office with a unique charter number.
- Amendments to the Articles of Incorporation can be made through the Secretary of State's website using this form.

Step 6: Create a Business Plan and Budget

- Your business plan should describe the organization's goals, programs, funding sources, events, staffing, volunteer needs, and other key operations.
- Your business plan should include a budget outlining funding sources, such as grants, individual donations, state or federal contracts, and projected expenses.
- A business plan and budget are required as part of the narrative section of IRS Form 1023 Application for Tax Exempt Status.

Use your business plan outline below to organize the nonprofit's mission, programs, operations, fundraising strategy, and approval process before completing tax-exemption filings.

Workflow Step	Guiding Questions	Information to Enter	Status/Member
1. Mission and need	What problem are we solving? Who benefits?	[Mission, community need, target population]	[Member/status]
2. Programs and services	What will we offer? How often will we do it? Where will we hold these programs? (etc.)	[Programs, service model, location, partners]	[Member/status]
3. Market/community analysis	Who else is serving this need, and what gap remains?	[Similar organizations, partners, referral sources]	[Member/status]
4. Operations plan	What people, systems, facilities, and tools are needed?	[Staff/volunteers, space, technology, supplies]	[Member/status]
5. Fundraising plan	Where will revenue come from?	[Donations, grants, sponsorships, fees, events]	[Member/status]

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

6. Budget draft	What will it cost to launch and operate for year one?	[Startup costs, monthly expenses, projected revenue]	[Member/status]
7. Review and approval	Who reviews the plan and approves the budget?	[Board review date, revisions, approval date]	[Member/status]

Use your budget plan below to estimate startup and ongoing costs, identify assumptions, and prepare realistic financial projections for the organization's first year.

Budget Category	Startup Cost	Monthly Cost	Annual Cost	Assumptions/Notes
Legal and filing fees	[$]	[$]	[$]	[State filing, tax exemption, professional support]
Insurance	[$]	[$]	[$]	[General liability, D&O, workers' compensation if applicable]
Technology and software	[$]	[$]	[$]	[Website, email, accounting, donor database]
Office or program space	[$]	[$]	[$]	[Rent, utilities, shared space, storage]
Program supplies	[$]	[$]	[$]	[Materials, equipment, participant support]
Staff or contractor costs	[$]	[$]	[$]	[Wages, payroll taxes, benefits, consultants]
Marketing and outreach	[$]	[$]	[$]	[Printing, ads, events, community outreach]
Fundraising costs	[$]	[$]	[$]	[Event costs, donor tools, grant writing support]
Contingency/reserve	[$]	[$]	[$]	[Emergency reserve or unexpected costs]
Total	**[$]**	**[$]**	**[$]**	[Insert total assumptions]

Step 8: Draft the Organization's Bylaws

- The bylaws serve as the rule book for the nonprofit. Bylaws are more frequently amended and should be reviewed regularly. Bylaws will be submitted to the IRS when filing Form 1023 for tax-exempt status.
- The bylaws should be more detailed than the Articles of Incorporation and address the following organizational issues:
    - **Membership**: Whether the organization has members; member eligibility; meeting timing, notice, special meeting rules, quorum, and voting.

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

- **Board of directors**: Number of directors, elections, meetings, terms, term limits, vacancies, removals, quorum, officers, and committees.
- **Fiscal management**: Fiscal year, committee and officer duties, director compensation, reporting, and dues.
- **Amendments**: How amendments are proposed and approved or rejected.

- *What does it mean for an organization to have members*?
  - **Has members** – voting members will choose the board of directors and have voting input into the direction of the organization.
    - Sample Bylaws with Members – **Feel free to use this as a template!**
  - **Does NOT have members** – the only voting members will be the organization's board of directors (more common).
    - Sample Bylaws without Members – **Feel free to use this at a template!**
- ***NOTE***: If your organization amends its bylaws, you are **not** required to file amended bylaws with the Secretary of State.

Step 7: Hold the First Board Meeting

- At the first board meeting, the board should formally approve the organization's key startup actions. **Keep minutes and store them with the corporate records.**
- Items which may be addressed at the first board meeting:
  - Approve Articles of Incorporation and confirm filing.
  - Adopt bylaws.
  - Elect officers.
  - Adopt conflict-of-interest policy.
  - Authorize EIN application and bank account opening.
  - Authorize application for tax-exempt status.
  - Approve initial budget and startup plan.

Step 8: Consider Legal and Insurance Needs

- Although it is not required, individuals starting a nonprofit may consult with an attorney for advice or technical assistance. Some items include:
  - Setting up employee benefits.
  - Setting up employment and HR policies/manuals.
  - Hiring staff.
- It is important to insure your nonprofit based on your specific activities and needs. An insurance agent may help find appropriate coverage for your nonprofit.
- If you pay over $1,000 in payroll, the only **required** insurance is workers compensation.

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

- Legal and insurance providers that work with MN nonprofits.

Stage 3: The Federal Filing Stage

Step 9: Apply for Federal ID Number (EIN)

- Nonprofits require an EIN, which acts similarly to a social security number and may be requested when opening a bank account or during other fiscal operations. Organizations must be incorporated before applying for an EIN and must have an EIN before applying for tax exempt status.
- For more information or to apply for an EIN, use the IRS website. This is a free service.

Step 10: Obtain Income Tax-exempt Status from the IRS

- Most charitable nonprofits apply for recognition of exemption under Section 501(c)(3). Organizations should complete the federal filing requirements **within twenty-seven (27) months of formation** to be considered tax-exempt back to the date of formation.
- The IRS requires organizations seeking 501(c)(3) recognition to use either Form 1023 or, if eligible, Form 1023-EZ.
  - **IRS Form 1023** — Use this form to apply for 501(c)(3) tax-exempt status if Form 1023-EZ is not available. Processing may take up to six (6) months.
    - Filing fee: $600. Pay by bank or cashier's check and mail to: Internal Revenue Service, P.O. Box 192, Covington, KY 41012-0192; private delivery service: 201 West Rivercenter Blvd., Attn: Extracting Stop 312, Covington, KY 41011.
    - Form 1023 instructions are available here.
  - **IRS Form 1023-EZ** — Available to eligible organizations with gross receipts of **$50,000 or less and assets of $250,000 or less.** File online through pay.gov; processing may take about three (3) months.
    - Filing user fee: $275. Instructions for filing Form 1023-EZ found here.

Stage 4: Minnesota Filing Stage

Step 11: Apply for Sales Tax Exemption from the State

- Some nonprofits may qualify for sales tax exemption on taxable purchases, especially educational or direct service organizations.

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

    - For example, a qualifying nonprofit may avoid sales tax on office supplies or program materials.
- To apply, organizations can complete and submit Form ST16, Application for Nonprofit Exempt Status – Sales Tax. No fee required.
    - This form notifies the state that the organization is exempt from sales tax.
- If your organization qualifies for this exemption, use Form ST-3, Certificate of Exemption to notify venders that sales tax should be removed from any applicable invoices. No fee required.
    - This form notifies the vendor that the organization is exempt from sales tax.

Step 12: Receive MN Tax ID Number (if needed)

- If the organization sells taxable goods or services, withholds MN income tax, pays MinnesotaCare or special taxes, or is a vendor of goods or services to a state government agency, it **must** obtain an MN tax ID number from the Minnesota Department of Revenue. This is essentially the state version of a federal EIN number. **Make sure you keep this for your records.**
- To obtain a tax ID number, complete and submit Form ABR, Application for Business Registration. No fee required.
- Nonprofits can register for a MN Tax ID via an online portal or phone (800-657-3605 or 651-282-5225).

Step 13: Register as a Charity

- An organization must register if it meets **ANY** of the following conditions:
    - It received contributions totaling more than $25,000 during the prior accounting year and/or it plans to receive contributions totaling more than $25,000 during the upcoming year;
    - It utilizes a professional fundraiser; and/or
    - Its "functions and activities," including fundraising, are performed wholly by persons who are paid for their services; and/or
    - Whose assets or income inure to the benefit of, or are paid to, any officer.
- An organization **must** register with the Attorney General before soliciting contributions. File a Charitable Organization Registration Statement. Make sure to include:
    1. A copy of the organization's Articles of Incorporation,
    2. IRS determination letter (the organization's approval and certification that it is a 501(c)(3)), and
    3. Your most recent financial statement.

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

- The filing fee is $25.
- ***NOTE***: **Two (2)** handwritten or digitally certified signatures are required on all Charitable Organization Registration and Annual reports. Typed names are **not** acceptable.
- Exemptions: Private foundations, certain religious organizations, and others may be exempt from charitable registration through the Minnesota Attorney General's office. Learn more.

Registration/Compliance Item	Agency	Status/Deadline
Annual nonprofit corporation renewal	[State Secretary of State]	[Insert deadline/status]
Charitable solicitation registration	[State Attorney General or charity regulator]	[Insert deadline/status]
State tax registrations or exemptions	[State Department of Revenue]	[Insert deadline/status]
Local permits or licenses	[City/County]	[Insert deadline/status]

Stage 5: Annual Filing Stage

Step 14: File IRS Form 990

- Tax-exempt organizations are required to make their **past three (3) years'** Form 990 and Application for Tax Exemption (Form 1023) widely available and **must** present it when asked. These forms can be made available in office or on the organization's website.
- **IRS Form 990** – The Form 990 is the most complete documentation of an organization's financial history. Even though a nonprofit may be tax exempt, it **must** file an annual information return with the IRS. The Form 990 your organization files will depend on your revenue as below:
  - **Form 990-N:** Organizations with revenues less than or equal to $50,000/year can file an Electronic Notice ("e-Postcard").
  - **Form 990-EZ:** Organizations with annual revenues between $50,000-$200,000 and total assets under $500,000
  - **Form 990:** Organizations with annual revenues over $200,000 or total assets over $500,000

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

        - Charitable organizations in MN with annual revenues exceeding $750,000 must also conduct an annual audit by an independent certified accountant.
- File Form 990 by the **15th day** of the **5th month** after the organization's accounting period ends (May 15th for a calendar-year filer). Mail to: Internal Revenue Service, Odgen, UT 84201-0027.
- ***NOTE***: Failure to file your annual Form 990 may result in penalties, and failure to file it for three (3) consecutive years **will result in loss of your tax-exempt status**.

Step 15: File Charitable Organization Annual Report Form

- The Charitable Solicitation Act states that an Annual Report Form **must** be filed with the Minnesota State Attorney General by the **15th day** of the **7th month** after the close of the organization's fiscal year. Must also include:
    - A copy of IRS Form 990,
    - Bank account information, and
    - An audited financial statement, if applicable.
- Filing Fees: $25. $50 late fee.
- Mail to: State of Minnesota, Office of the Attorney General, Charities Unit, Ste 1200, Bremer Tower, 445 Minnesota St., St. Paul, MN 55101; or via e-mail to: charity.registration@ag.state.mn.us.

Step 16: File Nonprofit Corporation Annual Renewal

- After an organization has filed for incorporation, it must continue to file an Annual Registration with the MN Secretary of state. If any information has changed since the last annual filing, **the organization's Articles of Incorporation must be amended**.
- ***NOTE****:* Failure to register by December 31st each year, regardless of your fiscal year end, **will result in the dissolution of the organization**. A $25 fee will apply to reinstate the organization's corporate existence. Non-profits can file their Annual Business Renewal online.

Step 17: Maintaining Your Nonprofit

- To ensure compliance after your nonprofit has been created, be sure to maintain federal and state compliance.
- See more information about state and federal requirements here.

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Ongoing Compliance Calendar

Task	Frequency	Filing Fee	Submit To/When	Responsible Person	Due Date/Notes
Board meetings and minutes	[Monthly/Quarterly/Other]	N/A	Keep for internal records	[Name/role]	[Insert notes]
IRS annual return, usually Form 990 series	Annually	None	Mail to IRS – 15th day of 5th month after accounting period ends	[Name/role]	[Insert deadline]
State corporation annual renewal	Annually	None	MN Secretary of State online – December 31st each year	[Name/role]	[Insert deadline]
Charitable registration renewal/report	Annually, if required	$25	Mail to MN AG Office or e-mail – 15th day of 7th month after close of fiscal year	[Name/role]	[Insert deadline]
Conflict-of-interest disclosures	Annually	N/A	Keep for internal records	[Name/role]	[Insert process]
Budget review	Annually or quarterly	N/A	Keep for internal records	[Name/role]	[Insert notes]

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

Additional Resources

Alternatives to, Starting, and Maintaining a Nonprofit

- Alternatives to Starting a Nonprofit - Minnesota Council of Nonprofits
- Starting a Nonprofit - Minnesota Council of Nonprofits
- Starting a Nonprofit: Incorporation and Bylaws - Minnesota Council of Nonprofits
- Starting a Nonprofit - Forms and Fees
- Maintaining a Nonprofit - Minnesota Council of Nonprofits
- Dissolving a Nonprofit - Minnesota Council of Nonprofits
- Legal Resource Library - Minnesota Council of Nonprofits
- Formation Documents Examples/Templates | Candid
- Bylaws Checklist | Blue Avocado
- Articles of Incorporation and Bylaws Templates | Minnesota Council of Nonprofits
- Fiscal Sponsorship Additional Resources | National Council of Nonprofits
- A Board's Guide to Fiscal Sponsorship - Propel
- National Network of Fiscal Sponsors
- FMW Nonprofit Solutions

Finance

- Financial Management | National Council of Nonprofits
- Finance & Legal Resources - Minnesota Council of Nonprofits
- Glossary: Nonprofit Finance Terms and Concepts - Nonprofit Finance Fund

Board Resources

- Board Roles and Responsibilities | National Council of Nonprofits
- Good Governance Policies for Nonprofits | National Council of Nonprofits
- Whistleblower Policy | National Council of Nonprofits
- Leadership & Governance Resources | Minnesota Council of Nonprofits
- Propel Nonprofits Board Resources

Policy

- Trends and Policy Issues | National Council of Nonprofits
- Public Policy - Minnesota Council of Nonprofits
- Advocacy & Public Policy Resources - Minnesota Council of Nonprofits

***NOTE: All included graphics are suggestive and not required but may be used for reference.*

DEI and Ethics

- Why Diversity, Equity, and Inclusion Matter for Nonprofits | National Council of Nonprofits
- Diversity, Equity, and Inclusion Resources - Minnesota Council of Nonprofits
- Ethics and Accountability for Nonprofits | National Council of Nonprofits

HR, Communications, Technology, Planning, Fundraising, and Evaluation

- Human Resources & Supervision Resources - Minnesota Council of Nonprofits
- Communications & Technology Resources - Minnesota Council of Nonprofits
- Evaluation & Planning Resources - Minnesota Council of Nonprofits
- Fundraising & Grantseeking Resources - Minnesota Council of Nonprofits
- Evaluation & Planning Resources - Minnesota Council of Nonprofits

***NOTE: All included graphics are suggestive and not required but may be used for reference.*