



## 5 Steps to Starting a Nonprofit in East Central Illinois

### Step 1: Research and Plan

- **Consider Your Options**

Is creating a nonprofit the best choice for your goals? There are alternatives such as starting a corporation, social enterprise, fiscal sponsorship or partnering with existing nonprofits. To start, examine the pros and cons of each option.

- **Do Market Research: Competition and Partners**

Competition is a reality for every organization –for-profit or not. As a nonprofit, you need individuals to hear and be conscious of your mission in order to succeed. Clarity is a top priority when pursuing an organizational partnership. The best partnerships occur when both parties have a clear understanding of their roles and their long-term value to the relationship.

- **Define Your Purpose and Mission**

Your purpose and mission should be crafted in alignment with the IRS 501(c)(3) statute. To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for [exempt purposes](#) set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. You must articulate your mission in a clear statement that tells the community what your purpose is and what you wish to do through your charitable efforts.

- **Examine the Creator Role**

As a founder, you need to figure out what your role is going to be in this new nonprofit. You cannot be the CEO and Chair of the Board. You can't be both volunteer and paid staff.

- **Recruit a Board of Directors**

Your first Board ideally will be 5 to 7 unrelated (familial) individuals who are responsible legally as fiduciaries for the nonprofit's governance, finances, and legal compliance. They need to be willing to attend meetings and fundraise on your nonprofit's behalf. At minimum, in the State of Illinois, you must have 3 directors on your board.

- **Develop a Business Plan and Budget**

Think about the first year of work at your nonprofit. You will need to describe your proposed program in detail and document planned expenses/revenue for that work. Who will you serve? Where will you serve them? What revenue will you secure –grants, donations, fees for services you provide, individual donations? Decide when your fiscal year will start and end and what accounting method you will use.

- **Do a Name Search & Reserve Your Organization's Name**

Search the Illinois Secretary of State Department of Business Services, [Corporation/LLC search](#) to check on availability of a nonprofit name before reserving your corporate name with the Corporation Division, 217-782-6961. Fill out the online form to reserve your nonprofit's name.

### **Step 2: Organize your Nonprofit and Hold Your First Board Meeting**

- **Appoint a Registered Agent**

A registered agent is responsible for receiving legal notices on behalf of your organization. The appointed registered agent must be physically located in the state of Illinois and maintain an office that is open during regular business hours.

- **Prepare and File Articles of Incorporation**

You can file online at [www.cyberdriveillinois.com](http://www.cyberdriveillinois.com). Click on Departments then Business Services then NFP Articles of Incorporation. You will need to use a credit card to pay the \$50 filing fee (or \$75 for expedited services).

- **File and Obtain a Federal Employer Identification Number (EIN) from the IRS**

This unique, nine-digit number is assigned by the IRS to identify your nonprofit. Visit the [IRS website](#) to file for a EIN. You can also do this through the mail, or by telephone and fax machine. There is no cost for this filing.

- **Draft Bylaws**

This governing document is very important and dictates how the Board of Directors will function while important decisions are being made and implemented. The State doesn't require a copy of these, but they must be attached to the federal tax exemption application.

- **Develop a Conflict of Interest Policy**

This policy ensures that your board, and other interested parties (volunteers, staff) will avoid conflicts when decisions are made regarding the use of organizational assets or resources.

- **Hold First Board Meeting**

Board members identified in the Articles of Incorporation now elect a slate of officers. It is best practice to assign at least three officer roles. Many nonprofits assign more however, only President (Chair), Secretary and Treasurer are required. This meeting is required by law and must be documented officially through meeting minutes. Other business at this meeting include approving a mission statement and conflict of interest policy. Board Members should sign an annual conflict of interest documents.

### **Step 3: Obtain Federal Tax Exemption Determination**

- **File for 501(c) status**

Complete and file an IRS 1023 or 1023 EZ. You will decide which form you need based on the eligibly worksheet (pg. 13) which you can find on the [IRS website](#). The EZ form is streamlined in both completion and approval notification. [Fees: \$275 1023-EZ and \$600 Form 1023] Apply within 15 months of the date you filed your articles of incorporation.

### **Step 4: Finish State Filings that require IRS Determination Letter**

- **File a CO-1 Registration Statement for Charitable Organizations**

This registration statement is required by the Illinois Charitable Trust Act and the Illinois Solicitation for Charity Act. Please answer all items which are applicable to your organization

and submit the \$15 filing fee made payable to the Illinois Charity Bureau Fund. The form can be accessed through the Illinois Attorney General's office at:

<https://illinoisattorneygeneral.gov/Page-Attachments/FormCO1RegistrationStatement.pdf>

- **File for State Sales Tax Exemption**

To request an exemption (E) number, an exclusively charitable, religious, or educational organization; a government organization; or an organization that otherwise meets the requirements as a tax-exempt organization (e.g., arts or cultural organization or qualifying senior citizens organization) must submit Form STAX-1: Application for Sales Tax Exemption to the Illinois Department of Revenue at

<https://www2.illinois.gov/rev/forms/reg/Pages/stax-1.aspx>

### Step 5: Assess Insurance

- **Assess all insurance needs for the organization**

This includes general, hazard, property and Directors and Officers Liability (D&O). At a minimum, you should purchase D&O insurance before you start operating. This protects your Board of Directors and Officers from any claims made against them while serving.

### Annual Maintenance Requirements for a Nonprofit

- **Submit your Annual Report to the Secretary of State**

All Not-For-Profit Corporations must file an annual report of officers and directors with the [Illinois Secretary of State](#). Forms will be sent to the registered agent approximately 60 days before the due date. Failure to file an annual report may result in involuntary dissolution of the corporation.

- **File IRS Form 990, 990-EZ, or 990-N**

The form selection is determined based on last year's annual gross receipts and is due 4.5 months after the end of fiscal year end. More information can be found on the IRS website.

- **Complete Annual Reports to Other Government Agencies**

The Internal Revenue Service, the Illinois Department of Revenue and the Illinois Attorney General may require other annual returns. Whether you must file a return and which return you will use depends in part on your status as a tax-exempt or non-tax-exempt corporation. To be sure of your obligations, please consult the proper agency.

- **Disclosure and Financial Statement Requirements**

Follow charitable solicitation disclosure and financial statement requirements closely. They can be found on the IL Secretary of State's website. These include written acknowledgement of charitable contributions and organizations must make certain documents available publicly.

*This form is for informational purposes only and is made possible through the Center for Nonprofit Excellence at the Community Foundation of East Central Illinois (CFECI). CFECI does not provide legal or financial advice. This document could include information that has been revised or updated. Links are included where applicable. Please contact us with any questions or to discuss your specific nonprofit creation questions.*