GOVERNANCE FOR NONPROFITS

Good Nonprofit Governance

creates a corporate atmosphere that
generates confidence within the organization
in each individual's ability
to successfully complete their mission
and results in a cohesive institution
that builds confidence
in volunteers understanding
the value of their contribution
of time and talent
and in donors believing
their contribution of treasure
is appropriate and worthwhile.

GOVERNANCE FOR NONPROFITS

A Board of Directors Guide to a Profitable Not-for-Profit Corporation

TED E DEGROOT



Governance for Nonprofits A Board of Directors Guide to a Profitable Not-for-Profit Corporation

Copyright © 2023 Ted E DeGroot. All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law.

The author and / or the publisher assumes no responsibility or liability for any error or omission in the content of this book and includes no guarantee of completeness or accuracy.

Universal Publishers, Inc.
Irvine • Boca Raton
USA • 2023
www.Universal-Publishers.com

ISBN: 978-1-62734-430-2 (pbk.) ISBN: 978-1-62734-431-9 (ebk.)

For permission to photocopy or use material electronically from this work, please access www.copyright.com or contact the Copyright Clearance Center, Inc. (CCC) at 978-750-8400. CCC is a not-for-profit organization that provides licenses and registration for a variety of users. For organizations that have been granted a photocopy license by the CCC, a separate system of payments has been arranged.

Typeset by Medlar Publishing Solutions Pvt Ltd, India Cover design by Ivan Popov

Library of Congress Cataloging-in-Publication Data

Names: DeGroot, Ted E., author.

Title: Governance for nonprofits: a board of directors guide to a profitable

not-for-profit corporation / Ted E. DeGroot. Description: Irvine: Universal Publishers, 2023.

Identifiers: LCCN 2023007271 (print) | LCCN 2023007272 (ebook) | ISBN 9781627344302 (paperback) | ISBN 9781627344319 (ebook)

Subjects: LCSH: Nonprofit organizations--Law and legislation. | Corporate

governance--Law and legislation. | Directors of corporations--Legal status, laws, etc. Classification: LCC K656 .D44 2023 (print) | LCC K656 (ebook) | DDC 346/.064--dc23/

eng/20230512

LC record available at https://lccn.loc.gov/2023007271 LC ebook record available at https://lccn.loc.gov/2023007272

Table of Contents

Acknowledgements	XÌ	Local Laws	g
Preface	xiii	Local Tax Laws	10
Boxed Material Explained	xiii	Local Permits and Licenses	10
Sources of Information Explained	xiii		
Replicated Material Explained	xiii	Chapter 2: Corporate Elements -	
Use of Apostrophes Explained	xiii	Factors for Operation	11
Legal Advice Suggested	xiii	Charter	11
Introduction	XV	Charter Executive Summary	12
An Observation	xv	Purpose	12
Rationale for the Book	xv	Business Type	12
Definitions	xv	Reason for Existence	12
Identifying Nonprofits	xvii	Regarding Product	12
		Market Description	12
SECTION I		Executive Summary	13
LEGAL AND SEMI-PERMANENT		Articles of Incorporation	16
ORGANIZATIONAL STRUCTU	RE	Structure of Articles	16
Section Preface		Annotated Articles of Incorporation	16
		Nonprofit Ally Annotated Articles	16
Chapter 1: Laws	3	Articles of Incorporation General Notes	19
Layers of Laws	3	Example of Articles	19
National Laws	3	Attorney Input	22
Variables	3	Pro Bono	22
Corporations	3	Letter of Agreement	22
Partnerships	4	Nonprofit Establishment Forms	24
Limited Liabilities	4	Form SS-4 – Employer	
Personal Corporations	4	Identification Number	24
Personal Service Corporations	4	Nonprofit Internal Revenue	
Nonprofit Eligibility	4	Service Forms	24
501 Classes (a)-(h)	5	Form 1023 – Nonprofit Charity	
Industry-Specific Laws	7	Recognition	24
Citizen Support Organizations	8	Form 1024 – Nonprofit Status	
Federally Issued Permits	8	Recognition	24
Federally Issued Licenses	8	Form 8718 – Nonprofit Review	
State Laws	8	Application and Fee	24
State Tax Laws	۵		

Mailing Rates Individual States 24 Library District The Robert Wood Johnson The Robert Wood Johnson Foundation 4 Science Foundation 5 Science Foundation 5 Science Foundation 6 Science Foundation 6 Science Foundation 7 Science Foundation 7 Science Foundation 8 Science Foundation 9 S				
Individual States 24 Library District The Robert Wood Johnson Foundation American Society of Animal Science Foundation American Society of Ameri	US Postal Service - Nonprofit		Other Examples of Trustee Bylaws	87
Chapter 3: Financial Operations 25 Foundation American Society of Animal Science Foundation 3 American Society of Animal Science Foundation 3 Science Founda	Mailing Rates	24	Northern Saguache County	
Chapter 3: Financial Operations Internal Revenue Service Accountability Reporting Requirements 25 Loss of Tax-Exempt Status 25 Losbying Public Officials Regarding a Specific Issue 25 Political Campaigning 26 Unrelated Business Income 26 Organizational Change in Direction 27 Internal Revenue Service, Form 990s 27 Private Letter Rulings 28 Requirements to Dissolve a Nonprofit 8 SECTION II BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Seneral Rules for Bylaws 33 Standard Sections of Bylaws 34 Typical Bylaws Explained 35 Critical Elements of Bylaws 34 Typical Bylaws Explained 35 Important Bylaw Elements 57 Chapter 5: Directors, Trustees, Governors and Covenants 52 Definition 53 Definition 54 Definition 54 Definition 55 Definition 75 Notes Regarding Trustees 55 Sample Trustee Bylaws 76 Examples of Sloaans 10 Definition 51 Definition 75 Notes Regarding Trustees 55 Sample Trustee Bylaws 76 Examples of Sloaans 10 Definition 75 Short Statements 51 Definition 75 Definition	Individual States	24	Library District	87
Internal Revenue Service Accountability Reporting Requirements Loss of Tax-Exempt Status How Income is Used Lobbying Public Officials Regarding a Specific Issue Political Campaigning Unrelated Business Income Reporting Obligations Organizational Change in Direction Internal Revenue Service, Form 990s Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws The Driving Force General Considerations for Bylaws Typical Bylaws Explained General Considerations for Bylaws The Driving Force Stamples of Bylaws The Driving Force General Considerations for Bylaws The Driving Force Chapter 5: Directors, Trustees, Governors and Covenants Definition Sample Director Bylaws The Principia The Principi			The Robert Wood Johnson	
Reporting Requirements Lobbying Public Officials Regarding a Specific Issue Political Campaigning Unrelated Business Income Reporting Obligations Organizational Change in Direction Internal Revenue Service, Form 990s Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws – An Overview The Driving Force General Rules for Bylaws Standard Sections of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws The Driving force Standard Sections of Bylaws The Driving Force The Financial Industry Regulatory Authority Covenants Rosebush Cove Other Examples of Covenants Rosebush Cove Other Examples of Covenants Lake Washington Ridge Homeowners Association Shearwater Homeowners Association The Power of Covenants The Power of Covenants The Power of Covenants The Power of Covenants Section Preface Chapter 5: Directors, Trustees, Governors and Covec The Examples of Mission Statements The Principia The Principia The Naples Players The Principia The Principia The Principia The Notes Regarding Mission Statements Thoores Regarding Vision Statements Thores Regarding Vision Statements Thores Regarding Vision Statements The Examples of Vision Statements Thores Regarding Trustees Source Foundation Sample Drivetor Bylaws The Principia The Prin	Chapter 3: Financial Operations	25	Foundation	87
Loss of Tax-Exempt Status 25 How Income is Used 25 Lobying Public Officials	Internal Revenue Service Accountability	25	American Society of Animal	
How Income is Used Lobbying Public Officials Regarding a Specific Issue Political Campaigning Private Letter Rulings Political Covenants Political Covenants Political Campaigning Private Letter Rulings Private Letter Rules of Covenants Political Industry Private Letter Rulings Private Letter Rules Private Letter Rulings Private Letter Rulings Private Letter Rulings Private Letter Rulings Private Letter Rules Private Let	Reporting Requirements	25	Science Foundation	87
Lobbying Public Officials Regarding a Specific Issue Political Campaigning Unrelated Business Income Reporting Obligations Reporting Obligations Reporting Obligations Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Timportant Bylaw Elements Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Principia Notes Regarding Governor Bylaws Buffield State College Buffield State College Cher Examples of Governor Bylaws The American Red Cross IEEE The Financial Industry Regulatory Authority Regulatory Author	Loss of Tax-Exempt Status	25	Board of Governors	87
Regarding a Specific Issue 25 Political Campaigning 26 Unrelated Business Income 26 Reporting Obligations 27 Internal Revenue Service, Form 990s 27 Private Letter Rulings 28 Requirements to Dissolve a Nonprofit 38 Requirements to Dissolve a Nonprofit 38 Section Preface 4: Elements for Operation of a Board 5 Bylaws - An Overview 33 Bylaws - An Overview 33 Standardized Rules for Bylaws 34 The Driving Force 33 Requirements of Bylaws 34 Typical Bylaws Explained 35 General Considerations for Bylaws 34 Typical Bylaws Explained 35 Requirements of Directors 41 Board of Directors Bylaws 62 Definition 61 Sample Director Bylaws 62 The Principia 71 Notes Regarding Trustees 75 Sample Trustee Bylaws 76 Sample Trustee Bylaws 16 Sample Trustee Bylaws 16 Summile Governor Bylaws 16 Reporting Obligations 26 Cheapter 5: Directors Bylaws 62 Definition 75 Sample Trustee Bylaws 76 Examples of Slooans 16 Sumples of Slooans 16 Summiles of Summiles of Slooans 16 Summiles of Slooans 17 Summiles of Slooans 18 Summiles of	How Income is Used	25	Definition	87
Regarding a Specific Issue Political Campaigning Unrelated Business Income Reporting Obligations Organizational Change in Direction Internal Revenue Service, Form 990s Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Sovernors and Covenants Definition Sample Director Bylaws The Principia Board of Trustees Definition Sample Direstor Bylaws The Principia Board of Trustees Definition Sample Direstor Bylaws The Sample Trustee Bylaws Sample Trustee Bylaws The Sam	Lobbying Public Officials		Notes Regarding Governors	87
Unrelated Business Income 26		25	Sample Governor Bylaws	88
Reporting Obligations Organizational Change in Direction Internal Revenue Service, Form 990s Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Sovernors and Covenants Chapter 5: Directors, Trustees, Governors and Covenants Regulatory Authority Regul	Political Campaigning	26	Bluefield State College	88
Reporting Organizational Change in Direction Organizational Change in Direction Internal Revenue Service, Form 990s Private Letter Rulings Requirements to Dissolve a Nonprofit SECTION II SECTION II SECTION II SECTION Freface Chapter 4: Elements for Operation of a Board Splaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Chapter 5: Directors, Trustees, Governors and Covenants South Covenants Sample Director Bylaws The Naples Players The Principia South Covenants The Financial Industry Regulatory Authority Scovenants Covenants Sample Covenants S	Unrelated Business Income	26	Other Examples of Governor Bylaws	94
Internal Revenue Service, Form 990s Private Letter Rulings Private Letter Rulings Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Chapter 5: Directors, Trustees, Governors and Covenants Board of Directors Definition Sample Director Bylaws The Principia Board of Trustees Figure 17 Board of Trustees Sample Directors Sample Directors Sample Trustees Bylaws Sample Trustee Bylaws Sample Trus	Reporting Obligations	27	The American Red Cross	94
Private Letter Rulings 28 Requirements to Dissolve a Nonprofit 29 Requirements to Dissolve a Nonprofit 28 Requirements to Dissolve a Nonprofit 29 Requirements to Definition 29 Sample Director Bylaws 34 Restriction 39 Standardized Rules 30 Restrictions 40 Restrictions 40 Restrictions 40 Restrictions 40 Restrictions 40 Restrictions 50 Restrictions 40	Organizational Change in Direction	27	IEEE	94
Requirements to Dissolve a Nonprofit BYLAWS Section Preface Chapter 4: Elements for Operation of a Board The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Section Preface Chapter 5: Directors, Trustees, Governors and Covenants Board of Directors Definition Sample Director Bylaws The Naples Players Definition Sample Director Bylaws Definition Notes Regarding Trustees Definition Notes Regarding Trustees Definition Notes Regarding Trustees Songle Director Bylaws Sologan Examples of Vision Statements Sologan Examples of Slogans Covenants Definition Sample Director Bylaws Definition Notes Regarding Trustees Sologan Examples of Slogans	Internal Revenue Service, Form 990s	27	_	
BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Typical Bylaws Explained Typical Bylaws Explained General Considerations for Bylaws Tmportant Bylaw Elements The Driving Force Thapter 5: Directors, Trustees, Governors and Covenants Board of Directors The Naples Players The Principia Board of Trustees Definition Sample Covenants Lake Washington Ridge Homeowners Association Shearwater Homeowners Association 10 Shearwater Homeowners Standardized Rules 10 Standardized Rules 10 Standardized Rules 10 Sectricins 10 Sectricins 10 Sectrions 10 Sectrion III OPERATIONAL STATEMENTS Section Preface Chapter 6: Today and Tomorrow 10 Major Statements Statements Statements of Purpose Mission Statements 10 Notes Regarding Mission Statements 10 Notes Regarding Mission Statements 11 Notes Regarding Vision Statements 12 Examples of Vision Statements 13 Short Statements 14 Scannple Trustee Bylaws 16 Sample Trustee Bylaws 16 Sample Trustee Bylaws 17 Section Preface Chapter 6: Today and Tomorrow 16 Statements 17 Notes Regarding Mission Statements 18 Notes Regarding Vision Statements 19 Short Statements 10 Sample Trustee Bylaws 10 Sample Trustee Bylaws 10 Sample Trustee Bylaws 10 Sample Trustee Splaws 10 Sam	Private Letter Rulings	28	Regulatory Authority	94
SECTION II BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Sovernors and Covenants Board of Directors The Naples Players Definition Sample Covenants Rosebush Cove Other Examples of Covenants Lake Washington Ridge Homeowners Association Shearwater Homeowners Association Association Shearwater Homeowners Association Shearwater Homeowners Association Association Shearwater Homeowners Association Shearwater Homeowners Asso	Requirements to Dissolve a Nonprofit	28		94
BYLAWS Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws The Power of Covenants Section Preface Chapter 6: Today and Tomorrow Major Statements Major Statements Major Statements Major Statements Typical Bylaws Typical Bylaws The Principia Major Statements Typical Bylaws Typical Bylaws Typical Bylaws The Power of Covenants Section Preface Chapter 6: Today and Tomorrow Major Statements Typical Bylaws Typical Bylaws Typical Bylaws The Power of Covenants Section Preface Chapter 6: Today and Tomorrow Major Statements Typical Bylaws Typical Bylaws Typical Bylaws The Power of Covenants Section Preface Chapter 6: Today and Tomorrow Major Statements Typical Bylaws Typical Bylaws Typical Bylaws Typical Bylaws Typical Bylaws The Power of Covenants Typical Bylaws The Power of Covenants Typical Bylaws			Definition	94
Section Preface Chapter 4: Elements for Operation of a Board Bylaws - An Overview The Driving Force General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Typical Bylaw Elements Typical Bylaw Elements Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Elements Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Explained Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Explained Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Explained Typical Bylaw Explained General Considerations for Bylaws Typical Bylaw Explained Typical Bylaw E	SECTION II		Sample Covenants	95
Chapter 4: Elements for Operation of a Board 33	BYLAWS			95
Chapter 4: Elements for Operation of a Board 33				102
Chapter 4: Elements for Operation of a Board 33	Section Preface		0 0	
of a Board Bylaws - An Overview The Driving Force 33	Chanter 4: Flements for Operation			102
Bylaws - An Overview 33 Standardized Rules 16 The Driving Force 33 Notes Regarding Rules and General Rules for Bylaws 34 The Power of Covenants 16 Critical Elements of Bylaws 34 The Power of Covenants 16 Standard Sections of Bylaws 34 Typical Bylaws Explained 35 SECTION III General Considerations for Bylaws 57 OPERATIONAL STATEMENTS Important Bylaw Elements 57 Section Preface Chapter 5: Directors, Trustees, Governors and Covenants 61 Nonprofit Organizational Management 61 Board of Directors 61 Definition 61 Sample Director Bylaws 62 The Naples Players 62 The Principia 71 Board of Trustees 75 Definition 75 Notes Regarding Trustees 75 Slogan 16 Sample Trustee Bylaws 76 Sample Slogans 16 Examples of Slogans		33		
The Driving Force General Rules for Bylaws General Rules for Bylaws Gritical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Typical Bylaws Explained Typical Bylaws Explained Typical Bylaws Explained Typical Bylaws Typical Bylaws Explained Typical Bylaws Explained Typical Bylaws The Power of Covenants The Power of Co				102
General Rules for Bylaws Critical Elements of Bylaws Standard Sections of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements Section Preface Chapter 5: Directors, Trustees, Governors and Covenants Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Principia For any of Trustees Definition Source of Trustees Source of Trustee	•			102
Critical Elements of Bylaws Standard Sections of Bylaws Typical Bylaws Explained General Considerations for Bylaws Important Bylaw Elements The Power of Covenants SECTION III SECTION III OPERATIONAL STATEMENTS Section Preface Chapter 5: Directors, Trustees, Governors and Covenants Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition Source Trustees Definition Sample Director Bylaws The Naples Players Definition Source Trustees Definition Source Segarding Trustees Source Segarding Vision Statements Definition Notes Regarding Trustees Source Segarding Section Preface Chapter 6: Today and Tomorrow Major Statements Statements of Purpose Mission Statement Notes Regarding Mission Statements Examples of Mission Statements Source Segarding Vision Statements Short Statements Slogan Examples of Slogans	<u> </u>		<u> </u>	
Standard Sections of Bylaws Typical Bylaws Explained Typical Bylaws SECTION III The Section Preface Chapter 6: Today and Tomorrow Thair Statements Thair Statements Thair Statements Thair Statements Typical Bylaws Section III The Section Preface Chapter 6: Today and Tomorrow Thair Statements Thair Statements The Statements Typical Bylaws Section III The Section Preface Chapter 6: Today and Tomorrow Thair Statements Thair Statements The Statements Typical Typical Statements The Section Preface Chapter 6: Today and Tomorrow Thair Statements The Statements Typical Statements The Purpose The Notes Regarding Mission Statements Typical Statements The Notes Regarding Mission Statements The Notes Regarding Vision Statements The Notes Regarding Vision Statements The Notes Regarding Trustees Typical Statements The Notes Regarding Vision Statements The Notes Regarding Trustees Typical Statements The Notes Regarding Vision Statements The Notes Regarding Vision Statements The Notes Regarding Trustees Typical Statements The Notes Regarding Vision Statements The Notes Regarding Trustees Typical Statements The Notes Regarding Vision Statements The Note				102
Typical Bylaws Explained 35 SECTION III General Considerations for Bylaws 57 OPERATIONAL STATEMENTS Important Bylaw Elements 57 Section Preface Chapter 5: Directors, Trustees, Governors and Covenants 61 Nonprofit Organizational Management 61 Board of Directors 61 Definition 61 Sample Director Bylaws 62 The Naples Players 62 The Principia 71 Board of Trustees 75 Definition 75 Notes Regarding Trustees 75 Short Statements 10 Single Trustee Bylaws 76 SECTION III OPERATIONAL STATEMENTS Section Preface Chapter 6: Today and Tomorrow 10 Major Statements 10 Major Statements 10 Notes Regarding Mission Statements 10 Notes Regarding Mission Statements 10 Notes Regarding Vision Statements 10 Short Statements 10 Slogan 10 Examples of Slogans 10	-		The Power of Covenants	103
General Considerations for Bylaws Important Bylaw Elements Chapter 5: Directors, Trustees, Governors and Covenants Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition Source of Trustees Definition Notes Regarding Trustees Source of Definition Short Statements Source of Major Statements Statements of Purpose Mission Statement Notes Regarding Mission Statements Source of M	_		ORCEION III	
Important Bylaw Elements 57 Section Preface Chapter 5: Directors, Trustees, Governors and Covenants 61 Nonprofit Organizational Management 61 Board of Directors 61 Definition 61 Sample Director Bylaws 62 The Naples Players 62 The Principia 71 Board of Trustees 75 Definition 75 Notes Regarding Trustees 75 Slogan 10 Section Preface Chapter 6: Today and Tomorrow 10 Major Statements 10 Statements of Purpose 10 Notes Regarding Mission Statements 10 Notes Regarding Mission Statements 10 Notes Regarding Vision Statements 10 Short Statements 10 Short Statements 10 Slogan 10 Examples of Slogans 10			SECTION III	
Chapter 5: Directors, Trustees, Governors and Covenants Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition Source Figure 6: Today and Tomorrow Major Statements Statements of Purpose Mission Statement Notes Regarding Mission Statements Examples of Mission Statements Vision Statement Notes Regarding Vision Statements Examples of Vision Statements Notes Regarding Trustees Short Statements Slogan Sample Trustee Bylaws Chapter 6: Today and Tomorrow Major Statements Statements Statements of Purpose Mission Statement Notes Regarding Mission Statements Examples of Mission Statements Notes Regarding Vision Statements Short Statements Slogan Examples of Slogans		57	OPERATIONAL STATEMENTS	
Governors and Covenants Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition The Principia Board of Trustees Definition Sample Director Bylaws The Principia The Principi	Important Bylaw Elements	57	Section Preface	
Nonprofit Organizational Management 61 Board of Directors 61 Definition 61 Sample Director Bylaws 62 The Naples Players 62 The Principia 71 Board of Trustees 75 Definition 75 Notes Regarding Trustees 75 Sample Trustee Bylaws 76 Major Statements 10 Statements of Purpose 10 Mission Statement 10 Notes Regarding Mission Statements 10 Notes Regarding Vision Statements 10 Examples of Vision Statements 10 Short Statements 10 Slogan 10 Examples of Slogans 10	· , , , ,		Chapter 6: Today and Tomorrow	107
Nonprofit Organizational Management Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition The Notes Regarding Vision Statements Definition Notes Regarding Vision Statements Examples of Vision Statements Examples of Vision Statements Examples of Vision Statements Short Statements Statements of Purpose Mission Statement Examples of Mission Statements Notes Regarding Vision Statements Examples of Vision Statements Short Statements Slogan Examples of Slogans	Governors and Covenants	61	Major Statements	107
Board of Directors Definition Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition To Notes Regarding Mission Statements The Principia To Notes Regarding Vision Statements To Notes Regarding Vision Statements To Examples of Vision Statements To Examples of Vision Statements To Short Statements To Short Statements To Slogan To Slogan To Examples of Slogans	Nonprofit Organizational Management	61	•	107
Definition Sample Director Bylaws 62 The Naples Players 62 The Principia Board of Trustees Definition Notes Regarding Mission Statements 71 Notes Regarding Vision Statements 10 Examples of Vision Statements 11 Notes Regarding Vision Statements 12 Examples of Vision Statements 13 Short Statements 14 Slogan 15 Slogan 16 Examples of Slogans	Board of Directors	61	_	107
Sample Director Bylaws The Naples Players The Principia Board of Trustees Definition Notes Regarding Trustees Sample Trustee Bylaws 62 Examples of Mission Statements 10 Notes Regarding Vision Statements 11 Notes Regarding Vision Statements 12 Examples of Vision Statements 13 Short Statements 14 Slogan 15 Examples of Slogans 16 Examples of Slogans	Definition	61		
The Naples Players The Principia The Principia To Notes Regarding Vision Statement To Notes Regarding Vision Statements To Examples of Vision Statements To Examples of Vision Statements To Short Statements To Slogan To Sample Trustee Bylaws To Examples of Slogans	Sample Director Bylaws	62		
The Principia 71 Notes Regarding Vision Statements 10 Board of Trustees 75 Examples of Vision Statements 10 Definition 75 Short Statements 10 Notes Regarding Trustees 75 Slogan 10 Sample Trustee Bylaws 76 Examples of Slogans 10	The Naples Players	62	1 2	107
Board of Trustees 75 Examples of Vision Statements 10 Definition 75 Short Statements 10 Notes Regarding Trustees 75 Slogan 10 Sample Trustee Bylaws 76 Examples of Slogans 10	The Principia	71		108
Definition 75 Short Statements 16 Notes Regarding Trustees 75 Slogan 16 Sample Trustee Bylaws 76 Examples of Slogans 10	Board of Trustees	75		108
Notes Regarding Trustees 75 Slogan 10 Sample Trustee Bylaws 76 Examples of Slogans 10	Definition			108
Sample Trustee Bylaws 76 Examples of Slogans 10	Notes Regarding Trustees			108
Examples of Stogans 10	Sample Trustee Bylaws	76	_	108
Purdue University 76	Purdue University	76	Examples of Slogans	109

Tagline	109	Members – Direct Involvement	144
Examples of Taglines	109	Number of Members	144
Motto	109	Members Qualifications	144
Examples	109	Little/No Staff	144
The Five "P's"	109	Income	144
Principles	109	Area of Influence	144
Notes Regarding Principles	110	Small Business Class	144
Josephson Institute	110	Members – Moderate Involvement	144
Purpose	112	Number of Members	145
Notes Regarding Purposes	112	Members	145
The Coco-Cola Company	112	Staffing, Dependent on Mission	
Policies	114	and Income	145
Notes Regarding Policies	114	Income	145
The National Institute for		Area of Influence	145
Public Procurement	115	Large Business Class	145
Riverside Community College	119	Members – Indirect Involvement	145
Process	123	Number of Members	145
Notes Regarding Processes	123	Members	146
US Army Enlistment Process	124	Staffing Dependent on Mission	
Procedure	125	and Income	146
Notes Regrading Procedures	125	Income	146
National Mastitis Council	126	Area of Influence	146
		Board Classification by Purpose	146
Chapter 7: Ethics	129	Simple Charities	146
Code of Ethics	129	Good of the Community	147
The Charles Stewart Mott Foundation	129	Industry Specific	147
Code of Conduct	130	Certification Providers	147
Ibriatle Services	130	Oversight Oriented	148
The Fair Labor Association	134	Issue Specific	148
Code of Practice	136	Event Specific	148
Scottish Social Service Workers		Social Welfare	149
Council	136	Clubs	149
Standard of Conduct Statement	138	Social Clubs	149
Sarbanes-Oxley	139	Local Clubs	149
		National Clubs	149
SECTION IV		Trade Unions	150
PRACTICAL STRUCTURE FOR BOA	RDS	Nonprofit Evaluation	150
Section Preface		Advisory	150
Chapter 8: Types of Boards	143	SECTION V	
		BOARD FUNCTIONALITY	
Factors Classification has What Plants	143	Section Preface	
Classification by Who Elects	1.40	2001311 1 3/400	
Board Members Member Driven	143	Chapter 9: Classification Due	
Member Driven Board Driven	143	to Effectiveness	153
Boara Driven Donor Driven	143	Telltales for Board Functionality	153
	144	Board Functionality Defined	154
Club Class	144	Nonfunctional Board	154
Club Class	144		-54

viii Governance for Nonprofits

Dysfunctional Board	154	Chapter 11: The Role of the Board	
Malfunctional Board	154	in Decisions	169
Other Warning Signs	155	Requirements for Directors	169
A Functional Board	155	Relationship to the Mission	169
Board Confidentiality	155	Operational Policies	170
		Approval of Operational Plans	170
Chapter 10: Fiscal Responsibility		Approval of Expenses	170
and Integrity	157	Implementation of Decisions	171
Universal Requirements	157	Strategic Planning	171
Separation of Duties	157	Typical Strategic Plan	171
Review of Corporate		Basic Information	171
Management Policies	158	Mission Statement	172
Budget Approval	158	Area of Service	172
Financial Sustainability	158	Staffing Profile	172
Restricted Funds	158	Status of Success	172
Permanently Restricted Funds	158	Anticipated Challenges	172
Temporarily Restricted Funds	159	Marketing	172
Unrestricted Funds	159	Technology	172
Audits	159	Financial Considerations	172
Reserve Funds	160	Situational Analysis	172
Foundations	161	Analysis of Risks	172
Endowments	161	Key Performance Indicators	172
Management Compensation	162	Executive Summary	172
Fundraising Expectations	163		
Fundraising Responsibilities	163	Chapter 12: Board Composition	175
Adherence to Laws	163	Officers	175
Fundraising Policy	163	Committee Chairs	176
Gift Acceptance Policies	164	Working Members	177
Outside Fundraisers	164	Honorary Directors	177
Financial Diversity	164	Advisory Members	177
Fundraiser Compensation	165	Provisional Directors	177
Donor Privacy	165	Ex Officio Directors	178
Director Participation	165	Board Attorney	178
Advocacy	166	Member of Senior Management	178
Advocacy versus Lobbying	166	Government Representative	178
Advocacy	166	Member Representative	178
Lobbying	166	member representative	1,0
Insurance	166	Chapter 13: Officers	181
Individual Responsibilities	167	General Duties and Responsibilities	181
Board Responsibilities	167	Officers of the Board	181
Director Responsibilities	167	Board Chair	182
Fiscal Responsibility	167	Board President	182
Integrity	167	President Elect	183
		Past President	183
		ı ası ficsiuciii	10.4

Executive Vice President	183	Standing or Ad Hoc Committees	199
Vice Presidents	184	Ad Hoc Committees	200
Secretary	184	The Aggregate Model	200
Minutes	185		
Treasurer	185	SECTION VI	
Journal	186	MEETING DYNAMICS	
Ledger	186	Section Preface	
"C" Level Officers	186	beetton Frejace	
Chief Executive Officer	187	Chapter 16: Meeting Types	203
Chief Operating Officer	187	Limited Participation Meetings	203
Chief Financial Officer	187	Executive Sessions	203
Other Chief Officers	187	Open Participation Meetings	204
Executive Director	187	Robert's Rules of Order	204
Committee Chairs	188	Robert's Rules of Order – Cheat Sheet	204
Chair Duties	189	Meeting Rules of Order – Condensed	_
Standing Committee Chairs	189	Use of Robert's Rules	205
Ad Hoc Committees	190	Rules for Motions	206
		Notes for the Chair	206
Chapter 14: Legal Responsibilities		Standards for Personal Conduct	
of a Nonprofit Board	191	Rules for Personal Conduct	207
Legal Duties and Responsibilities	191	Unprepared Members	207
The Three D's	191	Onprepared Members	207
Code of Conduct	191	Chapter 17: Agendas	209
Notes for Codes of Conduct	191		_
California Society of		Agenda	209
Association Executives	192	Standard Agenda Format	209
Liability Considerations	192	Sample Agenda	209
Legal Duties and Responsibilities	192	Types of Standard Agendas	209
Volunteers	192	Standard or 'General' Meeting	
Donors	192	Agenda	209
Members	193	'Formal' Agenda	210
Board Officers	193	'Limited' or Single Item Agenda	210
President/Chief Executive Officer	193	'Project' Agenda	210
Vice Presidents	193	'Consent' Agenda	210
Secretary	193	Common Consent Items	210
Treasurer/Chief Financial Officer	194	The Consent Process	210
Committee Chairs	194	Notes for Consent Items in	211
Executive Director	194	the Agenda General Considerations for Agendas	211
		General Considerations for Agendas	211
Chapter 15: Committees	197	SECTION VII	
Committees in General	197		
Notes for Committees	197	BOARD CONTINUITY	
Standing Committees	198	Section Preface	
Ad Hock Committees	198	Chantay 10. Tayne Limits	24-
Committees Models	198	Chapter 18: Term Limits	215
The Traditional Committee Model	198	Common Standards	215
Standing Committees	198	Representative Seats	215

X Governance for Nonprofits

Expectations for Advisory Services

Considerations For and Against		Chapter 21: Risk Management	229
Term Limits	216	Risks in General	229
Term Limits – Benefits	216	Managing Risk	229
Term Limits – Liabilities	216	Stakeholder Departure Policy	230
Suggestions for Term Limits	216	Departure Checklist	231
Added Considerations	217	Board Director Departures	231
Chapter 19: Nomination - Election -		Chapter 22: Insurance	233
Orientation	219	-	
The Selection Process	219	Essential Insurances	233
The Nomination Process	219	Directors and Officers	233
Qualifying Needs	220	General Liability Insurance	234
Finding Potential Members	220	Automotive Insurance	234
Qualifying Potential Members	220	Crime and Fidelity	234
Nominating Members	221	Volunteer or Participant Injury	234
The Election Process	221	Workers' Compensation	234
Notes Regarding Elections	222	Specialized Insurances	234
Orientation and Assignments	222	SECTION IX	
New Director Orientation	222		
Standard Orientation Elements	223	THE VALUE OF GOOD GOVERN	ANCE
Introduction Verbally,		Section Preface	
Tactically, Visually	223		
Introduction Written Items	223	Chapter 23: Good Governance	239
Book versus Electronic Presentation	224	Good For-profit Governance	239
Assignment of Responsibilities	224	Good Nonprofit Governance	239
SECTION VIII		Index	241
ORGANIZATION AND LIABILITY PROTECTION	Y		
Section Preface			
Chapter 20: Governance Tools	227		
Board Advisory Services	228		
Types of Services for Nonprofits	228		

228

Acknowledgements

Twish to especially thank John Sorey, Rebecca Bubenzer, Kimberly Agnello, and Francine Stevens, who struggled through early drafts providing objective input into the development of the book; Jessica Litman and Daniel Sokol for their learned input; Kevin Carmichael and Jacob Winge for their guidance early in the discovery process of what governance is and means to a successful organization; to Lisa DeGroot who offered a fresh look at the way the book is structured greatly improving the way material is organized; and to Jeff Young for his guidance and input all along the long road of building this book.

Also to Christopher Torres, Judge Brent Benjamin, Nick Price, James Anderson, Ellis Carter, James Schwartz, Michael Schoenfeld, Michael Josephson, Tracy Crow, Kathryn Thomas, Bryce Alexander, JoDee Sattler, Ronni Levine, Robert Retherford, Steve Vick, Lee Barron, Steven Schultz, Rebeccah Goldware, and Daniel Kurtland, Sarah Koehn Frey for their generous offer of time and materials found in the book.

And to my wife, Patti, who endured multiple versions of the book and years of hours of solitude while I clunked away at the keyboard.

Preface

This is not a true "How To" book. It is more a combination of material, more an instruction manual or textbook; a large collection of information related to the operation of a not-for-profit business organization.

GOVERNANCE for Nonprofits explains the terms and required elements for the operation of a nonprofit business, shows examples of how others have approached specific areas of operation, and provides guidelines for the various common functions of a nonprofit. And in a few cases uses simple terms to help the reader identify nuances in practice. In limited instances, the book lists options as suggestions to present concepts that would require more space than is worthwhile.

As such, GOVERNANCE is more of a reference book than a treatise.

Explanation:

A treatise is defined as: "A systematic exposition or argument in writing including a methodical discussion of the facts and principals involved and conclusions reached."

www.merriam-webster.com/dictionary/treatise

As mentioned above, the book uses occasional boxed interruptions in the flow of the information to offer material that might help clarify a point, explain an uncommon term, or in some cases, offers trivia related to the topic, but always with the objective of explaining the subject at hand.

Like the quotation above, most of the information in this book was garnered from the internet rather than from other books. To simplify and identify the source of the information, the relevant Universal

Resource Locator (URL) is quoted directly below the text rather than numbered and set in a separate section devoted to footnotes. In a limited number of cases, where the source is widely available, it may just be noted.

When a material is directly quoted, that material is identified and credited. So, unless it is obvious what the source of the material is, the material is identified and indicated by enclosure in a shaded box with an explanation, usually an internet address:

When in the Course of human events it becomes necessary for one people to dissolve the political bands which have connected them to another ...

www.ushistory.org/Declaration/document/
The United States of America, Declaration of
Independence

Sometimes the material is taken from other sources and modified to suit the book's purpose. In that case, the material is indicated by enclosure in an unshaded box, and the source is usually credited:

When it becomes necessary for people to dissolve the political parties that have connected them to each other ...

www.ushistory.org/Declaration/document/ The United States of America, Declaration of Independence

Throughout this book, to clearly define the subject of a definition, the defined 'term' may be enclosed in apostrophes as a literary device to assure there is no confusion about what is being described.

xiv Governance for Nonprofits

Lastly, this book should not be used as a sole source of information. Before implementation, all steps of corporate formation and many other

potential operational changes should be reviewed by an attorney familiar with nonprofit law.

Introduction

AN OBSERVATION

Over the past few decades, I have observed the Board of Directors for some non-profit organizations are highly effective, and some are grossly ineffective. It is not a matter of the quality of the board members or even the quality of the leadership provided by its officers. Almost all directors are intelligent, dedicated individuals.

What separates functional from dysfunctional organizations is not so much different opinions about the organizational direction or that individuals strongly support a 'personal agenda' as trying to function within a weak structure that does not provide a defined mission and a sufficiently defined bylaws and policies.

This book codifies and explains what works (and occasionally what does not work) for not-for-profit organizations and explains why a path of little resistance is a path to controversy and a lack of good governance almost always results in the inability of a board to function smoothly.

For the record, there is a significant difference between the commitment people make to serve on a for-profit and not-for-profit board. For-profit board members usually make a long-term commitment to serve on the board with no specified term limit. Not-for-profit boards seem to be best served by having directors' terms limited. That alone creates a different atmosphere within the board and changes how an organization operates.

Rationale for the Book

Some boards are highly effective and some that wallow in confusion, overloaded with good ideas while ostensibly within the power of the directors to fulfill, are truthfully out of reach for the structure and personnel of that board; mostly because the board is unorganized, and members do not understand their individual responsibilities within the organization.

This book deals primarily with organizational elements: How to put together a Board of Directors that works, something called Governance.

Definitions

Definitions as used in this book:

Ad Hoc in Latin means "to or for this."

Today, ad hoc is often used to describe
an activity formed for and limited to
a specific purpose; most often, a temporary committee is formed to explore
or accomplish a closely defined
responsibility.

Board refers specifically to a Board of Directors or a Board of Trustees or a Board of Governors as a group of individuals dedicated to a specific mission within a specific organization. Board refers to a generic Board of Directors, Trustees or Governors.

Bylaws or by-laws have the same meaning and refer specifically to a document that elucidates the rules under which a corporation must operate. Written without a "-" is now the accepted way to write the word, 'Bylaws'.

Confidentiality Agreement is a contract between an organization and an individual to assure certain information is only communicated, either verbally or in written form, with authorized individuals and done so in a manner that assures privacy.

- Council is a board of councilors, an advisory council.
- Councilor is a member of an advisory council.
- Director is a member of a board of directors.
- Director Emeritus is a person who was a director, is not at the present time, but continues to advise the board or the organization.
- Evaluation Firm is a source of information about an organization. GuideStar, Social Solutions, and the National Council of Nonprofits are examples of organizations dedicated to gathering information about nonprofits regarding their stated purpose, fulfillment of that purpose, organization (usually determined by review of their Articles of Incorporation and Bylaws), published financial statements, IRS forms and other data, then makes that data (and sometimes, their evaluation of the organization) available to interested parties, mostly to potential donors.
- Ex officio is a designation of an individual who holds office, such as a board member, due to the person's position or status. i.e., The president of one group is an automatic member of another group. For example, the chairperson is an automatic member of all committees. Ex officio members can have a voting or non-voting status within the group.
- Fiduciary is an individual or group's ethical and financial obligation to act in the best interest of another. Most often coupled with the word "responsibility."
- For-profit versus for profit. In this book, there is a frequent explanation of differences between an organization founded to make a profit for shareholders and an organization with no shareholders and not intending to make a profit. To separate simply working 'for-a-profit' from working 'not-for-profit', firms operating

- to make a profit are usually termed 'for-profit'.
- Functional in reference to a Board of Directors:
 - Functional is operating normally or more specifically, optimally.
 - Dysfunctional is operating but not performing optimally due to internal strife.
 - Malfunctional is operating, but performing below optimal levels due to its practice of weak governance or lack of governance altogether.
 - Nonfunctional is not capable of operating, most often because it does not operate at all.
- Governance is the act of managing a people or actions. Referenced to a Board of Directors, it includes managing legal requirements, good personnel policies and practices, guidelines for operations and oversight of how the communicates, particularly board with each other. Most simply stated, governance is the development, modification, and enforcement of the letter and spirit of bylaws.
- Governor is a member of a board of governors.
- Governors refers specifically to a group of individuals charged with overseeing or 'governing' the operation of an organization. Essentially a board of directors, but with somewhat different responsibilities.
- Indemnity or Indemnify relates to protecting someone or something, usually against loss or financial burden.
- Members usually refers to 'general members', those individuals not seated on a board or council but having expressed, usually by paying dues, interest and commitment to an organization. Individuals sitting on a board or committee are usually identified by a specific title, most often 'directors'.
- Minutes is a written record of the proceedings of a meeting. Except for motions and amendments that are recorded verbatim, minutes are usually not

recorded verbatim but condensed to indicate the main points of discussion.

Nonprofit versus Not-for-Profit. There is no practical difference between the two words. That said, 'not-for-profit' is a very clear statement indicating intent, as in a business that could either operate as a for-profit or notfor-profit; a hospital being a prime example of a business where some organizations operate for-profit, some as not-for-profit. 'Nonprofit' could be a statement of fact (The business operates without a profit.) versus intent (The business operates without intent to make a profit and purposefully distributes all income.). Today, 'nonprofit' is the preferred way to refer to any business not operating as a 'for-profit' entity.

Policy is a documented position statement, subject to change, stating an official position regarding a defined subject or an approved plan outlining a course of action relative to ongoing or anticipated operations.

Pro bono or pro bono public is 'for the public good'. The term describes work done by a professional without charge. For nonprofits, 'pro bono' usually relates to work done by an attorney or accountant working without compensation.

Staff refers to paid or volunteer individuals who function regularly to accomplish the organization's goals.

Stakeholder describes a person or entity with a significant interest in an organization, its operations and its success.

Trust an entity established to benefit a defined person, group of persons or an organization.

Trustee or Trustee-s a board of trustees' member.

Trustees refers specifically to a Board of Trustees that is likely to have more fiduciary group and individual responsibility for the operations of the organization than a standard board of directors.

Identifying Nonprofits

There are several types of nonprofits. The most common is a 501(c) (3), a tax-exempt charity. But there are others too (See Chapter 1, 501 Classes (a)-(h)). To simplify matters, this book might use the term '501s' to talk about all classes of nonprofits or 'c8s' to address a specific class rather than stating 'U.S. Code; Title 26; Subtitle A; Chapter 1; Subchapter F; Part I; § 501(c)(8)'.

After all, the book deals only with 501s.

SECTION I

Legal and Semi-Permanent Organizational Structure

Structure is necessary for a business, in fact, any organization, to function.

Since the advent of writing and reading, man has written down rules for society and how we relate. The Ten Commandments, and before them, the concept of marriage are manifestations of structure. We live reasonably orderly lives due to laws and

set expectations for how things are done. That is structure.

When agreed by those empowered to determine what is worthy of being a formally recognized custom or procedure, and then recording and publishing that standard for all to see, it becomes what we call the definition of expected actions or 'laws'.

Chapter 1

Laws

LAYERS OF LAWS

All Boards of Directors are governed by laws; actually, multiple layers of laws. The higher the layer of governing law, the greater the responsibility of the board and individual directors within the board to abide by those laws.

NATIONAL LAWS

The highest enforceable laws are the laws of the land. Specifically, those laws imposed by the national government and, to a lesser degree, those by international agreement. For an organization, these are laws providing general definitions of what constitutes a business, what structure a business is allowed, and laws that govern certain operations and practices of businesses.

Tax laws are the second level of regulation, setting borders on what actions constitute a business class, describing attributes common to operations for similar businesses and limiting what the business can do legally.

At this level, businesses are currently defined as an entity that has a single owner (a sole proprietorship) or a limited number of owners (commonly a partnership) or multiple owners (a corporation), or no owners (a nonprofit corporation).

Variables

Corporations and partnerships both have some variations in how they can be structured.

Comment:

What follows are highly simplified explanations of business types and should not be regarded as a complete definition. Consult a corporate attorney for more complete definitions.

Corporations

Corporations offer certain protections to owners from litigation for actions of the corporation and have four classifications:

Corporations having an 'unlimited number of owners,' most of whom are not involved in the operation of the business, are a "C" class corporation. Profit from the actions of the business is taxed, and the remaining amount not held in reserve is distributed to stockholders as dividends. Dividends are subject to taxation as a part of an individual's income and may be taxed at a rate separate from simple income.

Smaller companies with 'limited number of owners', who are directly or indirectly involved with the business, can elect to be an "S" Corporation. Income from an "S" Corporation is distributed directly to the owners and treated as simple earned income.

Personal Corporations, a "PC" is 'usually a single person, but can be more,' that provides personal services to the public, and all PC owners participate in the process of providing the service. Owners can choose to be taxed as either a "C" or "S" corporation.

Nonprofit corporations have 'no designated owners.' They are managed by a

group of responsible individuals designated as a board of directors (or something similar) and use all their income to further the corporation's goals. Nonprofits do not pay a national tax on income, and there can be no distribution of excess earnings to any entity or individual.

Partnerships

Partnerships offer limited protection for individual owners but are less regulated, easier to form, and still offer certain tax advantages.

Partnerships have three common variables:

There are general partnerships with a fairly 'limited number of partners,' most individuals equally responsible for the actions of the business and sharing profits equally from its operations and paying tax on those earnings as simple income.

In unlimited general partnerships, there may be 'multiple partners' who share the business's profits and liabilities equally.

In limited partnerships, all partners invest equally in the business and share the profits. Some individuals may however not participate in the management of the business or in the liabilities of the business.

Limited Liabilities

Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP) are state-authorized entities that enjoy some protections and tax advantages offered to shareholders in a corporation but still can operate as a sole proprietorship in the case of an LLC or partnership in an LLP.

Personal Corporations

A Personal Corporation (PC) is a state-authorized service organization, usually a 'single individual' who works on behalf of

an employer as an independent contractor. While most PCs operate as a single individual, there may be multiple individuals within the PC, most often supporting the principal's efforts.

Personal Service Corporations

Some states offer Personal Service Corporations (PSC), a combination of a Personal Corporation and a regular Corporation are subject to specific industries and tax regulations.

Explanation:

At this point, only corporations are eligible for nonprofit status under the tax codes of the United States.

Nonprofit Eligibility

Unlike a for-profit business where income after expenses or 'profit' is distributed to shareholders, in a nonprofit corporation, there is no expected surplus income eligible to be taxed by the federal government. A for-profit business can only operate for a limited time without producing a profit before the Internal Revenue Service declares the business illegal and imposes fines and penalties on the business.

Explanation:

A nonprofit may operate a for-profit business with the expectation that all profits generated after paying taxes accrue to the nonprofit.

Only by applying to the Internal Revenue Service and being granted a Section 501 status (see below) can a corporation be certified as a nonprofit. Until that certification is granted, the corporation is treated as a for-profit organization even if there are no shareholders.

Comment:

Good places to start an application for nonprofit status are:

- · www.irs.gov/charities-non-profits/applyingfor-tax-exempt-status
- www.ein-assistance.com/form?entity-type= non-profit-organization

Currently, there are request-for-certification packets available online at www.irs.gov.

Most Section 501(c)(3) (see below) charitable organizations with gross receipts of \$50,000 or less and assets of \$250,000 or less are eligible for a shortform application. Organizations that do not meet these qualifications and other classes (listed below) of nonprofits must complete a long-form application and expect a longer period before certification.

Both forms require the organization to be in place and have an IRS employer identification number (EIN) to apply for nonprofit status. Applicants can ask for the effective date of the nonprofit status to be earlier than the date of the application. Still, it is recommended that an application to be identified as a nonprofit be filed as early as possible to avoid deadlines and significant paperwork to justify an earlier date.

All the steps of corporate formation should be reviewed by an attorney familiar with nonprofit law prior to implementation.

501 Classes (a)-(h)

There are over thirty classifications for nonprofit corporations, most filed under U.S. Code; Title 26, with the glyph '§ 501' exemption from tax on corporations, certain trusts, etc.

Below is a compressed selection of the code - starting at Section 501(a) - and is intended only to provide general information regarding the actual code.

U.S. Code; Title 26; Subtitle A; Chapter 1; Subchapter F; Part I; § 501

- An organization described in subsection (c) or (d) or section 401(a) shall be exempt from taxation under this subtitle unless such exemption is denied elsewhere in the code.
- An organization exempt from taxation under subsection (a) shall be subject to tax to the extent provided in parts II, III, and VI of Subchapter F, but (notwithstanding parts II, III, and VI of this subchapter) shall be considered an organization exempt from income taxes for any law which refers to organizations exempt from income taxes.
- The following organizations are referred to in subsection (a):
 - Corporations organized under the Act of Congress, which is an instrumentality of the United States that is exempt from Federal income taxes.

- Corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization that is exempt under this section.
- Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of

- inures to the benefit of any private shareholder or individual.
- Civic leagues or organizations not organized but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes.
- Labor, agricultural, or horticultural organizations.
- Business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players) not organized, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.
- Clubs organized for pleasure, recreation, and other non-profitable purposes.
- 8. Fraternal beneficiary societies, orders, or associations.
- Voluntary employees' beneficiary associations providing for the payment of life, sick, accident, or other benefits to the members of such association or their dependents or designated beneficiaries.
- 10. Domestic fraternal societies, orders, or associations, operating under the lodge system.
- 11. Teachers' retirement fund associations.
- 12. Benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations.
- 13. Cemetery companies owned and operated exclusively for their members' benefits; and any

- corporation chartered solely for the purpose of the disposal of bodies by burial or cremation that is not permitted by its charter to engage in any business not necessarily incident to that purpose.
- 14. Credit unions without capital stock organized and operated for mutual purposes and without profit.
- 15. Insurance companies other than
- 16. Corporations organized finance the ordinary crop operations of members.
- 17. A trust or trusts forming part of a plan providing for the payment of supplemental unemployment compensation benefits.
- 18. A trust or trusts created before June 25, 1959, forming part of a plan providing for the payment of benefits under a pension plan funded only by contributions of employees.
- 19. A post or organization of past or present members of the Armed Forces of the United States, or an auxiliary unit or society of, or a trust or foundation for, any such post or organization.
- 20. A trust or trusts established in writing, created or organized in the United States, and contributed to by an individual.
- 21. A trust or trusts established in writing to insure Black Lung disease liabilities in persons.
- 22. A trust created or organized in the United States and established in writing by the plan sponsors of multi-employer organizations.
- 23. Any association organized before 1880, more than 75 percent of the members of which are present or past members of the Armed Forces, and a principal purpose of which is to provide insurance and other benefits to veterans or their dependents.

- 24. A trust described in section 4049 of the Employee Retirement Income Security Act of 1974.
- 25. Corporations or trusts which has no more than 35 shareholders or beneficiaries organized for the exclusive purposes of acquiring real property and holding title to, collecting income from, such property, and remitting the entire amount of income from such property to shareholders.
- Any membership organization established by a State exclusively to provide coverage for medical care.
- 27. Any membership organization to reimburse its members for losses arising under workmen's compensation acts.
- 28. The National Railroad Retirement Investment Trust established

- under the Railroad Retirement Act of 1974.
- 29. Co-op Health Insurance issuers that have received a loan or grant under a CO-OP program.
- d. Deals with religious and apostolic organizations that distribute their gross income to their members.
- e. Deals with cooperative hospital organizations.
- f. Deals with cooperative service organizations, a part of an operating educational organization that makes investments and distributes the income less expenses to its members.
- g. A delimitation of "Agricultural."
- Denies nonprofit status to political lobbying groups under certain circumstances, even if the members individually qualify as nonprofits.

Comment:

www.law.cornell.edu/uscode/text/26/501 provides a more complete synopsis of the code.

Despite the diversity in the types of nonprofit organizations, most share four things in common:

- An interest in helping others do what individuals cannot do for themselves alone.
- A desire to work for the betterment of others or their members.
- Usually, nonprofits start small, hoping to become larger and more effective.
- The organization needs to raise money from outside sources to finance its endeavors.

Explanation:

The most common exceptions to the need to raise funds for a nonprofit are certain types of trusts established as a nonprofit and trade organizations or fraternal organizations that charge their members a fee to cover the costs of benefits.

Industry-Specific Laws

There are national laws that apply only to specific industries, whether the operating entity is profit-oriented or non-profit qualified. For example, laws regarding employee/ management relations are universal in application. Likewise, commerce of all types is impacted by national laws. Product quality and safety issues, regulation of air space, and electronic communication are other examples. National laws are often intended to ensure safety for the general public and/or to avoid confusion. Driving on the right side of the road, red for stop, the Interstate highway system, weight and length restrictions for vehicles are nationally regulated but may be modified by localized regulations.

Comment:

Vehicle usage in mountainous areas is a good example of localized control. States, or even counties, can impose restrictions on the length of a vehicle eligible to use the road, the use of snow chains, and can open and close roadways due to local conditions.