Hollins & Associates
TAX ADVISORY & ACCOUNTING

NONPROFIT STARTUP & 501(c)(3) GUIDE

Formation • Governance • EIN Registration
IRS Exemption Applications • Compliance Calendar

BUILD YOUR NONPROFIT FOUNDATION

A practical, self-guided resource for forming a nonprofit, preparing an exemption application, building a responsible board, and maintaining federal and state compliance.

Meet Kimberly E. Hollins

KIMBERLY E. HOLLINS

Chief Executive Officer | Hollins & Associates LLC

Kimberly E. Hollins serves as Chief Executive Officer of Hollins & Associates LLC, a business services firm supporting individuals and small business owners with practical financial and administrative needs. Through the firm, she is associated with services including bookkeeping, tax preparation, payroll, sales and use tax assistance, and business support.

Her approach emphasizes helping business owners understand their responsibilities, organize essential records, and make informed decisions as they establish and operate their businesses. This guide reflects that commitment to practical, accessible business education.

A WELCOME MESSAGE

Starting a nonprofit requires more than a mission and good intentions. This guide walks you through governance, registration, IRS exemption, financial controls, and recurring responsibilities.

SELF-GUIDED EDUCATION & PROFESSIONAL SUPPORT

Use these instructions independently. If you would prefer a firm to help complete bookkeeping, tax, or nonprofit filing tasks, contact Kimberly E. Hollins at Hollins & Associates LLC.

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HOW TO USE THIS GUIDE

A practical compliance handbook, not a collection of definitions.

This expanded 2027 educational edition provides explanations, scenarios, control questions, and practical worksheets for founders and nonprofit boards. It uses Texas as the state example while explaining federal requirements.

Your implementation path

Plan the charitable program → form the legal entity → establish governance and banking → apply for federal recognition → operate with financial controls → file required reports.

Important compliance principle

Formation, tax exemption and fundraising permission are distinct legal questions. Requirements vary by organization and jurisdiction. Verify current forms, fees, thresholds and deadlines with the relevant agency.

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The Three Layers of Nonprofit Status

Before filing anything, understand what each government approval does.

State entity formation

A Texas nonprofit corporation is formed under state law by filing a certificate of formation. This creates an entity, but does not automatically make it a federal 501(c)(3) charity or exempt it from every tax. Keep the filed certificate and governing records permanently.

Federal tax-exempt recognition

Most new charities seek recognition under Internal Revenue Code section 501(c)(3) using Form 1023 or, if eligible, Form 1023-EZ. The IRS evaluates both organizing documents and the organization’s planned and actual activities. A determination letter documents the IRS decision.

Texas tax exemptions

Texas franchise tax, sales tax and hotel occupancy tax exemptions are separate state matters. Review Texas Comptroller procedures and eligibility before claiming exemption. Federal recognition may support a state application but does not replace every state step.

EXAMPLE

A tutoring nonprofit incorporates in Texas in January. It cannot tell donors that all gifts are deductible merely because the Secretary of State accepted its certificate. It must evaluate federal recognition, effective-date rules, and donor communications.

CHECKLIST

Identify your legal entity type; decide whether 501(c)(3) fits the mission; list state and federal applications; establish a document folder.

Mission, Charitable Purpose & Feasibility

Build a mission that can survive scrutiny, fundraising and daily operations.

Define the public benefit

State who is served, the community need, the services provided and measurable outcomes. A charitable mission should benefit an appropriate public class rather than primarily enriching founders, relatives or a closed private group.

Test the operating model

Prepare a first-year budget with program expenses, insurance, technology, professional fees, fundraising costs, reserve targets and expected revenue. Distinguish unrestricted gifts from donor-restricted funds and do not treat uncertain grants as guaranteed cash.

Document program design

Write a one-page description for each proposed program: eligibility, delivery method, geographic reach, staffing, cost per participant, safeguarding practices and evidence of results.

EXAMPLE

Instead of “help families,” specify “provide no-cost financial literacy workshops to low-income households in Dallas County, with six sessions each quarter and participant surveys.”

WORKSHEET

Mission: _____ Community served: _____ First-year programs: _____

Texas Formation: Step-by-Step

Create a legally sound organization before applying for tax exemption.

Prepare the filing

Check name availability, select a qualified registered agent who consents to serve, identify initial governing persons as required, and draft the Texas certificate of formation. Review the current Secretary of State form and instructions.

Include IRS-compatible clauses

For a planned 501(c)(3), the organizing document generally needs a qualifying exempt-purpose clause and an asset-dedication dissolution clause. Generic nonprofit language may not satisfy the IRS organizational test.

File and preserve evidence

Submit the certificate through an accepted Texas filing channel, pay the current fee, and save stamped copies and the filing acknowledgment. Do not invent a fee amount: confirm it with the Secretary of State.

Hold the organizational meeting

Adopt bylaws, appoint officers, approve banking authority, adopt conflict-of-interest and financial policies, authorize the exemption application and record the actions in minutes.

COMMON MISTAKE

A nonprofit can be legally incorporated but fail the IRS organizational test because its certificate allows noncharitable purposes or improper distribution of assets.

ACTION

Compare the filed certificate with IRS Publication 557 and Form 1023 instructions before submitting the exemption application.

Board Governance & Fiduciary Oversight

A functioning board is a control system, not a list of names.

Board duties

Directors generally owe duties of care and loyalty and must follow applicable law and the organization's purposes. They should review financial reports, monitor programs, approve major transactions and ask questions when information is incomplete.

Bylaws and officers

Bylaws should cover director selection and terms, meetings, quorum, voting, officer roles, committees, removal, records and amendment procedures. Confirm that each rule complies with Texas law.

Conflict-of-interest process

Require annual disclosures; document interested-party relationships; have disinterested directors evaluate alternatives and approve fair transactions when permissible. Record recusals and the basis for decisions.

Board meeting packet

Include agenda, prior minutes, cash summary, budget-to-actual report, program dashboard, fundraising update, risk register and proposed resolutions. Distribute in advance.

EXAMPLE

If a director owns the company bidding on a printing contract, document the relationship, obtain comparable bids, exclude the director from the vote and record the independent board decision.

CHECKLIST

Adopt bylaws; create board roster; sign disclosures; schedule meetings; retain approved minutes; review finances quarterly or more often.

EIN, Banking & Internal Controls

Separate nonprofit money from personal money on day one.

Apply for an EIN

Use the official IRS EIN application process after formation. An EIN identifies the organization for tax administration; it is not proof of 501(c)(3) recognition. Retain the IRS confirmation.

Open organizational accounts

Banks typically request entity formation records, EIN evidence and a board resolution identifying authorized signers. Never run nonprofit income through a founder’s personal account.

Segregate duties

Assign separate people to authorize spending, handle receipts, reconcile bank statements and review reports when staffing allows. For small volunteer groups, use compensating controls such as monthly board review.

Create a chart of accounts

Separate program, administration and fundraising expenses; track contributions and grants by restriction; distinguish cash from pledges; reconcile accounts monthly.

EXAMPLE

A $2,000 gift restricted to school supplies cannot simply be moved into general office spending because the operating account is short of cash.

CONTROL TEST

Who can approve payments? Who can access online banking? Who reviews statements independently? Where are receipts stored?

Choosing Form 1023 or Form 1023-EZ

Select the application based on actual eligibility, not convenience.

Full Form 1023

The full application generally requires a detailed narrative of activities, financial information, organizing documents, governance disclosures and other supporting facts. Certain organizations must use the full form.

Form 1023-EZ eligibility

The streamlined application is available only to organizations meeting the current eligibility worksheet requirements. Check organizational type, financial limits, activities and special exclusions using the latest instructions.

Describe actual activities

Explain what the nonprofit does, who participates, who is paid, where programs occur, how funds are raised and how the public benefits. Vague mission statements are not substitutes for operational detail.

Submission and timing

Review the current electronic filing process and fee. The effective date of exemption may depend on when the application is filed and other circumstances; verify the current IRS rules before making donor promises.

DECISION GUIDE

If any Form 1023-EZ eligibility question disqualifies the organization, investigate the full Form 1023 route rather than submitting an ineligible streamlined application.

APPLICATION PACKET

Filed certificate, bylaws, EIN, narrative, budgets or financial statements, board disclosures, fundraising plans, and governing approvals.

The IRS Operational Test & Private Benefit

Maintaining exemption requires compliant conduct after approval.

Operate for exempt purposes

A 501(c)(3) must primarily carry out qualifying charitable, religious, educational or other permitted activities. A nonprofit label does not excuse substantial nonexempt operations.

Avoid private inurement

Insiders cannot receive improper distributions of organizational earnings. Compensation and related-party payments should be reasonable, documented and independently reviewed.

Political activity rules

Section 501(c)(3) organizations are prohibited from participating or intervening in political campaigns for or against candidates. Lobbying is subject to limitations that depend on the applicable rules and elections.

Revenue-producing activities

Some unrelated business income may be taxable even for an exempt organization. Evaluate recurring commercial activities, exceptions, and potential Form 990-T obligations.

EXAMPLE

A founder cannot transfer donations into a personal account as a “bonus” without proper authorization and a defensible compensation arrangement.

BOARD CONTROL

Adopt written compensation review, expense reimbursement and conflict-of-interest procedures.

Donations, Receipts & Restricted Funds

Protect donor trust and avoid inaccurate tax-deductibility claims.

Donor acknowledgments

For certain contributions, donors need contemporaneous written acknowledgments containing required information, including whether goods or services were provided. The rules differ for noncash gifts and quid-pro-quo contributions.

Restricted contributions

Record restrictions by donor, purpose and any time limit. Release or spend restricted funds only in accordance with applicable terms and accounting requirements.

Noncash contributions

Document the description of donated property and follow applicable acknowledgment rules. Do not assign unsupported fair-market values to donated items on behalf of donors.

Donation platforms

Reconcile platform reports, gross gifts, processing fees and bank deposits. Verify who is the legal recipient of contributions and what information appears on donor receipts.

EXAMPLE

A donor gives $5,000 restricted to youth scholarships. The bookkeeper tags the gift as restricted and reports its balance separately until the scholarship conditions are satisfied.

CHECKLIST

Donation date; donor name; amount or description; restriction; acknowledgment issued; deposit match; donor record secured.

Budgeting, Bookkeeping & Financial Reporting

Turn transactions into reports the board can actually use.

Build a functional budget

Categorize program services, management/general expenses and fundraising. Compare monthly actual spending with budget and explain significant variances.

Reconcile monthly

Match each bank and credit-card account to the ledger. Investigate uncleared items, duplicate charges, missing deposits and outstanding checks.

Report cash and restrictions

Show cash on hand, restricted balances, accounts payable, grant commitments and near-term obligations. A high bank balance may still represent funds unavailable for general operations.

Prepare board-level reports

At minimum, consider a statement of financial position, statement of activities, budget-to-actual comparison, cash forecast and notes about material risks.

WORKED EXAMPLE

Beginning unrestricted cash $12,000 + unrestricted receipts $8,000 – eligible unrestricted spending $6,500 = $13,500 ending unrestricted cash, before reconciling outstanding items.

MONTHLY CLOSE

Reconcile bank; post payroll; review restrictions; review grant costs; approve financial statements; retain backup.

Payroll, Contractors & Volunteer Rules

Classify workers based on the relationship and applicable law.

Employee versus contractor

An agreement calling someone a contractor does not control their status. Evaluate IRS common-law factors and applicable labor laws, including direction and control, economic realities and other relevant tests.

Payroll registration

Employers may need federal withholding, employment tax deposits and returns, state unemployment accounts, workers' compensation considerations and required new-hire reporting.

Volunteer safeguards

Define volunteer roles, reimbursement policy, background checks where appropriate, safeguarding training and supervisory procedures. Some arrangements create wage or employment concerns.

Reasonable compensation

Board-approved pay should be supported by comparable data, clear job duties and conflict management. Retain payroll and contractor documentation securely.

EXAMPLE

A nonprofit sets a daily schedule, supervises a worker closely and provides tools. Paying the worker through Form 1099 does not automatically make them an independent contractor.

CHECKLIST

W-4 and I-9 for employees; W-9 for appropriate contractors; documented classification; payroll calendar; approvals.

Fundraising, Grants & Public Communications

Fundraising is a regulated operational function, not just a marketing campaign.

Solicitation registration

Charitable solicitation rules vary by state, activity and type of organization. Texas has targeted registration requirements for certain organizations and activities; multi-state fundraising can trigger other states' rules.

Grant readiness

Prepare mission and outcomes, budget, board list, IRS determination letter when available, financial statements, safeguarding policies and reporting capacity.

Grant restrictions

Read each award for allowable costs, spending periods, reporting, procurement, matching and return-of-funds provisions. Record each restricted grant separately.

Truthful donor messaging

Do not imply IRS approval has been granted if an application is pending. Avoid promises that every gift is deductible regardless of donor or organization circumstances.

EXAMPLE

A grant requires spending on after-school tutoring by June 30. The organization tracks instructor invoices and student attendance against the grant code.

CONTROL

Approve fundraising messages and grant agreements; assign reporting owners; maintain an award calendar.

Annual Federal Filing: Form 990 Series

An exemption letter does not end IRS reporting obligations.

Determine the correct return

Many exempt organizations file Form 990, 990-EZ or 990-N depending on current eligibility rules and financial measures. Some organizations have different requirements or exceptions.

Understand the filing deadline

For many calendar-year organizations, the annual information return is generally due the 15th day of the fifth month after the tax year ends, subject to applicable weekend/holiday and extension rules. Confirm the actual year's due date.

Prevent automatic revocation

Failure to file a required annual return or notice for three consecutive years generally results in automatic revocation. Track filings even when activity is minimal.

Prepare accurate governance disclosures

The Form 990 series can request information on board composition, compensation, programs, public support, related-party transactions and policies. Keep contemporaneous records.

EXAMPLE

A small charity with no fundraising this year should not assume it has no annual filing obligation. Check whether Form 990-N or another return is required.

ANNUAL FILE

Final return; e-file acceptance; board review evidence; supporting ledger; donor and grant schedules.

Texas Ongoing Compliance

Separate state corporate standing from state tax obligations.

Registered agent and records

Maintain a current registered agent and registered office, preserve corporate records and respond to official state notices. Update state filings when required.

Texas Comptroller obligations

Determine whether the organization has obtained applicable state exemptions and whether any reporting or tax obligations remain. Do not assume federal 501(c)(3) status removes all Texas responsibilities.

Employment and sales activity

Review Texas Workforce Commission unemployment requirements, sales tax obligations on taxable sales, and rules for fundraising events and exempt purchases.

Local and sector-specific rules

Check permits, zoning, food safety, childcare, health care, school partnerships, insurance and licensing depending on programs.

EXAMPLE

A charity may qualify for an exemption on some purchases but still need to review tax collection on taxable sales at an event.

REFERENCE

Texas Secretary of State: sos.state.tx.us; Texas Comptroller: comptroller.texas.gov; TWC: twc.texas.gov.

Compliance Calendar & Responsibility Matrix

Put each obligation on a calendar with an accountable owner.

Monthly responsibilities

Reconcile bank accounts; review budget-to-actual results; track restricted funds; approve disbursements; review grant milestones; deposit payroll taxes if required.

Quarterly responsibilities

Review financial dashboards; hold board or committee meetings according to bylaws; confirm payroll filings and grant reports; test internal controls.

Annual responsibilities

Determine Form 990-series obligations; prepare board disclosures; review insurance; update budget; verify state filings and exemption status; review policies and compensation.

Event-driven responsibilities

New directors, new programs, major donations, new states of fundraising, hiring, real estate transactions and material changes in activities can trigger additional reviews.

CALENDAR RULE

Record the responsible person, due date, proof of submission and reviewer. “We thought someone handled it” is not a control.

WORKSHEET

Task: _____ Owner: _____ Due date: _____ Evidence location: _____

Risk Management & Safeguarding

A nonprofit needs controls that protect beneficiaries, donors and volunteers.

Insurance review

Consider general liability, directors and officers, employment practices, property, cyber coverage and other policies suited to activities. Obtain professional insurance advice.

People and program safety

Set policies for youth or vulnerable adults, incident reporting, background checks where appropriate, supervision and data privacy.

Cyber and financial security

Require multifactor authentication, limited user access, backup procedures and secure handling of donor, employee and participant information.

Whistleblower and document retention

Create a reporting channel for concerns, prohibit retaliation, and establish retention schedules consistent with legal obligations and actual needs.

EXAMPLE

A staff member receives a request to change a vendor’s bank account. Require independent phone verification using a known number before payment.

CONTROL

Maintain a risk register: risk, likelihood, impact, owner, mitigation, review date.

Board & Founder Decision Scenarios

Apply the rules to common situations before they become problems.

Founder wants to be paid

The board should evaluate actual services, comparable compensation, available resources, conflict procedures and documentation. A founder’s role alone does not justify unrestricted payments.

Donor requests a special benefit

Determine whether the benefit creates a private benefit, affects deductibility or violates the donor’s restricted purpose. Document the decision and seek advice when needed.

Organization changes its mission

Review articles, bylaws, grant restrictions, tax-exempt purpose and possible reporting obligations before launching a substantially different program.

An annual filing was missed

Identify the missing filing, assess the number of consecutive years, investigate available corrective procedures and respond promptly. Do not assume late filings have no consequences.

BOARD EXERCISE

Write a one-paragraph decision memo stating facts, legal/compliance issue, alternatives, approvals, and records to retain.

TAKEAWAY

Good governance is demonstrated by informed decisions and documentation, not by having a policy binder that no one uses.

Launch Readiness & 90-Day Action Plan

Turn the guide into an implementation schedule.

Days 1–30: design

Finalize mission and programs, recruit a capable board, prepare budget, select name and registered agent, draft compliant organizing documents.

Days 31–60: organize

File formation documents, hold organizational meeting, obtain EIN, open bank account, approve governance policies and establish bookkeeping.

Days 61–90: apply and operate

Select the correct IRS exemption application, gather evidence, prepare narratives, adopt compliance calendar, launch donor controls and review state requirements.

After launch: maintain

Monitor the IRS application, communicate status accurately, reconcile monthly, prepare board reports, track filings and evaluate actual program outcomes.

SUCCESS CRITERIA

Each milestone has an owner, a completed document, a review date and a location in the permanent record system.

FINAL CHECKLIST

Mission; formation; board; bylaws; EIN; bank; IRS application; donor receipts; bookkeeping; calendar; insurance; compliance owners.

Implementation & Accountability Register

Record the person accountable, evidence retained, and review date for each critical workstream. Use this register at board meetings and update it as actions are completed.

Texas formation and organizing documents

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Board governance and conflict disclosures

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Federal exemption application

Responsible person	Evidence / action completed	Next review
_____	_____	_____

EIN, banking and financial controls

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Donations and restricted funds

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Annual Form 990 and state reporting

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Compliance calendar and risk review

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Launch readiness and follow-up

Responsible person	Evidence / action completed	Next review
_____	_____	_____

Verify Before You File

Use current agency publications for exact fees, thresholds, form versions, eligibility criteria and filing dates. This manual is an educational resource and is not a substitute for individualized legal or tax advice.

Agency / resource	Use it for
IRS Charities & Nonprofits — irs.gov/charities-non-profits	Federal exemption applications, Form 990 series, public charity rules
IRS Publication 557 — irs.gov/publications/p557	Tax-exempt organization rules and recognition
IRS Form 1023 instructions — irs.gov	Full exemption application requirements
IRS Form 1023-EZ instructions — irs.gov	Eligibility worksheet and streamlined application
Texas Secretary of State — sos.state.tx.us	Nonprofit corporation formation and state entity records
Texas Comptroller — comptroller.texas.gov	State tax exemptions and reporting
Texas Workforce Commission — twc.texas.gov	State unemployment and employer guidance

PUBLISHER SUPPORT

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General educational information only; not legal, tax, accounting, fundraising, or financial advice.

NONPROFIT & TAX-EXEMPT STATUS

State nonprofit incorporation does not itself confer federal tax exemption or charitable solicitation authority. Eligibility, public charity status, and deductibility depend on law and facts.

VERIFY CURRENT REQUIREMENTS

IRS and state forms, filing thresholds, fees, deadlines, and charitable registration rules can change. Check official agency guidance and obtain qualified advice where needed.

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