



## So, You Want to Start a Community Heritage Organization Ideas to Get You Started Down the Right Path

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### Introduction

This document is intended to provide basic guidance for groups that wish to create a community heritage organization in Vermont. While it prescribes some beginning steps, each situation is unique. As you move forward in the process, you should consult legal counsel and engage the services of a Certified Public Accountant as appropriate. This document is not an exhaustive resource on the subject; it should only serve to familiarize you with the processes and terminology you may encounter. It should not be considered legal, tax or accounting advice.

### Getting Started

You likely have begun with a small but enthusiastic group of citizens who wish to preserve, document and share the history of your community. There are many ways to do that, so your first step should be determining your goals—is it preserving buildings? gathering and sharing stories? documenting the past through publications and media projects? preserving and making accessible documents and artifacts? all of these? To help define your goals and gauge the level of community support for your ideas, consider gathering input through public meetings, surveys, interviews with individuals, discussions with other organizations and the engagement of your community's governing body.

### Founding Documents

Once you have defined what you want to do and established that you have adequate local support to make your endeavor a success, you should appoint a small committee to draft the documents necessary to establish your group as an organization.

1. **Constitution**—this is not a required document but may serve as an enduring foundation for your organization. Similar to the U.S. or state constitutions, it is a brief document that serves to define the purpose of your organization and empower those who will be running it. Your constitution should be difficult to amend once it has been ratified—perhaps requiring a 2/3 vote of the membership.
2. **Bylaws**—bylaws are required and lay out the specifics of the governance of your organization. The bylaws should be more easily amended than the constitution and should contain:
  - a. the name and purpose of the organization;
  - b. a determination of whether it will have members and requirements for membership;
  - c. specifics of governance, including the composition of the governing board (number and terms of service of officers and directors, means of selection/election, process for removal), governance process (Robert's Rules of Order, etc.);
  - d. committees (what committees and who serves on them);
  - e. meetings;
  - f. amendments to bylaws.

If you choose to be a membership organization, your draft bylaws and any subsequent amendments should be approved by the membership. Some of these matters are addressed in Vermont Statutes; please refer to *Vermont Statutes Annotated: Title 11B*.

3. **Articles of Incorporation**—the Office of the Vermont Secretary of State handles applications for articles of incorporation. It is a simple form that can be completed online when accompanied by a \$75 filing fee. You can find the form and other useful information at <http://www.sec.state.vt.us/tutor/dobiz/noprof/noprofex.htm>.

Through incorporation your group becomes a corporation in the eyes of the state of Vermont. Incorporating offers advantages to your organization:

- a. Incorporation is required to receive tax exempt status by both the state and the IRS;
  - b. Corporate status confers certain protections to the governing board, officers and other volunteers (see the section on Directors & Officers Insurance)
4. **501(c)(3) Status**—this is the means by which your incorporated organization receives tax exempt status from the Internal Revenue Service. Completion of this form can be time consuming and may require the engagement of legal services. Attainment of this status will offer several advantages to your organization.
    - a. Your organization becomes exempt from paying federal income tax;
    - b. Donations to your charitable organization become tax-deductible;
    - c. You will receive your Employer Identification Number (EIN) needed for future filings.

Before embarking upon this, it is wise to consult IRS Publication 557 at [www.irs.gov](http://www.irs.gov). Be aware that the IRS has specific filing requirements for 501(c)(3) organizations, including Form 1023 that must be filed at the conclusion of your first tax year, and annual filing of Form 990 (more about Form 990 will follow).

### **Mission Statement**

The mission statement expresses the purpose of your organization. As an internal document it forms the basis for your activities and provides a benchmark for assessing the relevance of new activities. It should be broad enough to demonstrate how your organization will make a difference in your community, yet narrow enough to allow you to define your scope. For example, the mission statement of the Vermont Historical Society is:

*VHS engages both Vermonters and “Vermonters at heart” in the exploration of our state’s rich heritage. Our purpose is to reach a broad audience through our outstanding collections, statewide outreach, and dynamic programming. We believe that an understanding of the past changes lives and builds better communities.*

You may revisit your mission statement on occasion, but it should serve as a core of your existence.

### **Setting up Bank Accounts**

Ideally you should not set up a bank account for your group until you have incorporated. When you do, have the bank set them up as business accounts and make certain your banking representative knows you are opening the account for a community based non-profit organization. They may be able to waive fees and might even provide

a contribution. As a precaution, you also may wish to require two signatures (Treasurer, President) on checks. As an alternative, you might establish a threshold amount at which 2 signatures are required (at the VHS checks over \$1,000 require 2 signatures).

### **Financial Accounting**

Now that you have been incorporated, attained 501(c)(3) status, approved your bylaws, drafted your mission statement and set up bank accounts, you should turn your attention toward keeping track of the funds you receive and spend. The specific manner in which you do this can be as simple or complex as your finances necessitate. In addition to promoting the efficient operation of your organization, good financial accounting is the most important way your governing body ensures that it is fulfilling its fiduciary responsibility. It is expected by your contributors and required by the state and feds.

- 1. Accounting Systems and Processes-**A simple accounting program like QuickBooks should be adequate for most young organizations. Assign bookkeeping responsibility to a single individual (typically the treasurer) and be certain they have the skills needed to do this well. Be very thoughtful about how you set your accounting program—it is much easier to do it right the first time than to try and recreate everything later. This would be a good time to consult with an accountant.
- 2. Budget-** To ensure that you have adequate funds to carry out your mission and to help you allocate money throughout the year, you should create an annual operating budget. This may be particularly difficult in your first few years because both revenues and expenses will be estimates.
- 3. Financial Statements-**Using your accounting program and budget, you should be able to produce monthly, quarterly, and annual financial statements. Officers, particularly the president and treasurer should review the monthly statements; the full board should review either monthly or quarterly statements; and your membership should have access to your annual statements. While you may find it useful to employ other statements, these 3 are standard:

- a. Income Statement or Statement of Activities
  - i. Records amounts received or earned during the period (revenue)
  - ii. Records amounts spent or committed during the period (expenses)
  - iii. Shows the difference as Increase or Decrease in Net Assets (bottom line)

Revenue	\$5,000
Expense	\$4,500
Increase in net assets	\$500

It may be expressed in comparison with your operating budget and with prior years.

- b. Statement of Functional Expenses-restates the statement of activities into 3 categories:
  - i. Program (expenses for mission related activities)
  - ii. Administration (expenses associated with the general operation of the organization)
  - iii. Fundraising (expenses associated with raising money)

<b>Program Services</b>	
Speakers fees	\$1,500
Exhibits	\$1,500
Oral histories	\$ 500
<b>Total Program Expense</b>	<b>\$3,500</b>
	78%
<b>Supporting Services</b>	
Administration	\$500
Fundraising	\$500
<b>Total Supporting Services</b>	<b>\$1,000</b>
	22%

This statement will be important for year-end reporting and may be examined by potential funders.

c. Balance Sheet or Statement of Financial Positions

- i. States assets of the organization (cash, receivables, property)
- ii. States liabilities of the organization (debt and payables)
- iii. States and classifies the net assets of the organization (assets - liabilities = net assets)

<b>Assets</b>	
Current (cash, receivables)	\$15,000
Long-term (property, investments)	\$35,000
<b>Total Assets</b>	<b>\$50,000</b>
<b>Liabilities</b>	
Current (payables, current debt)	\$5,000
Long-term (mortgage)	\$25,000
<b>Total Liabilities</b>	<b>\$30,000</b>
<b>Net Assets</b>	
Unrestricted	\$5,000
Temporary	\$5,000
Permanent	\$10,000
<b>Total Net Assets</b>	<b>\$20,000</b>
<b>Total Liabilities and Net Assets</b>	<b>\$50,000</b>

The balance sheet is a snapshot at a particular moment and helps you to understand what your organization is worth, what it owes and what it has available to support operations. **PLEASE NOTE THAT COLLECTIONS OWNED BY ARTISTIC and HISTORICAL ORGANIZATIONS ARE NOT RECORDED AS FINANCIAL ASSETS!**

An additional financial statement you may consider creating is the Statement of Cash Flows. It defines your organization's cash position—past, present and future. It may help you foresee periods when you will need to borrow to meet operating needs or periods when you should invest excess cash for future operations.

- 4. Annual Statements** – your organization will need to do two or three types of annual financial reporting: IRS Form 990, Annual Report to your membership, and perhaps an Audit.
- a. IRS Form 990-All tax exempt organizations, REGARDLESS OF SIZE, must file a Form 990 with the Internal Revenue Service. Failure to file for 3 consecutive years will result in the revocation of the tax-exempt status. The form must be received by the IRS on the 15<sup>th</sup> day of the 5<sup>th</sup> month following the end of the fiscal year (May 15 for a December 31 fiscal year end). For organizations with gross receipts less than \$50,000 this requirement can be fulfilled by filing a Form 990-N (e-postcard). This can be done entirely online and will require that you provide 7 or 8 simple pieces of information about your organization. More information is available at <http://www.irs.gov/pub/irs-pdf/i990.pdf>.
  - b. Annual Report to the Membership—it is a good practice to provide your members with an annual summary of your finances. In most cases this will include a year-end Income Statement and Balance Sheet. It can be delivered as a stand-alone document at your annual meeting, included in a larger published annual report (print or online) or included in your newsletter.
  - c. Audit—at some point you may elect to have a qualified accounting firm conduct an external review of your accounts. The most common is an audit. An audit provides an independent opinion as to whether your financial statements are presented fairly in accordance with “Generally Accepted Accounting Principles” (GAAP). Auditors will conduct a review of your financial records and assess your internal controls. In addition to providing audited financial statements, they will likely offer recommendations for improving processes and controls.

Events that may trigger the need for audit may include: applying for/receipt of specific grants or foundation support; anticipation of a property purchase or other major financial transaction; change in executive leadership; or suspicion of fraud.

**Directors and Officers Insurance**—You also should consider securing D&O Insurance. It is generally very affordable and provides coverage for the officers and directors for “breach of duty.” While coverage varies from one carrier to another, it generally covers “wrongful acts.” These most commonly are mismanagement of assets and various employment indiscretions, including discrimination and sexual harassment.

**Big Questions You Should Think About Very Carefully**—I will conclude with a brief discussion about three big steps that your organization should consider with caution and deliberation:

1. Collections—it is logical and common for heritage organizations to consider collecting artifacts, documents, photographs and other materials that document their community. Before embarking upon a collecting program, please give thought to the resources that will be required to manage and care for collections (storage space, curatorial care, conservation services, etc.). Please also be certain you are aware of the ethical considerations encompassed in collecting historical materials and do not begin accepting donations of collections until you have a complete collections management policy.

2. Property—likewise, many heritage organizations seek to acquire and preserve a historic building. This gives them a base of operations, preserves a local landmark and often becomes the centerpiece of the organizations interpretive efforts. Buildings come with enormous costs and ongoing obligations—especially one that you can acquire for free. In addition to the cost of renovation, your organization will be saddled with ongoing expenses for upkeep and operations (utilities, maintenance, insurance). Be certain that you will have the resources needed to attend to these costs.
3. Paid Staffing—most community heritage organizations begin as an all-volunteer operation. As the organization grows and becomes more sophisticated, outside help is desirable, either consultants for short-term endeavors or paid staffing for ongoing activities. Hiring staff can provide the organization with needed expertise and energy, but can also have unforeseen consequences. Before taking on staff, please be certain that you have the ability to manage and afford personnel. Above all else be certain that you can distinguish between a contractor and a paid employee. I have seen numerous non-profits run into serious problems with the IRS and Department of Labor because they were treating a paid employee as a contractor.

**Conclusion**--As I do not wish to end on a discouraging note, let me express how admirable your intentions are. As Margaret Mead opined, "Never doubt that a small group of thoughtful, committed people can change the world. Indeed, it is the only thing that ever has." Organizations like the Vermont Historical Society are rooting for your success and desire to be helpful in any manner possible. Good luck as you embark upon your historical journey.