



Michigan 4-H Entrepreneurship Guidelines

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Introduction

4-H entrepreneurship clubs and programs are designed to offer young entrepreneurs and entrepreneurs-to-be hands-on learning and real-life business experiences. The 4-H entrepreneurship program offers a safe environment in which young people can work independently and with others to develop a product or service and operate a business with limited financial risks. One of the major goals of the 4-H entrepreneurship project is for youth participants to eventually start their own independent businesses outside of 4-H.

How Youth Entrepreneurs Benefit

From market livestock animals and craft sales to worm farming and biofuel production, 4-H has been involved in entrepreneurship from its beginning. Entrepreneurship combines business concepts and creativity. 4-H entrepreneurship programs can help youth take an existing project to new levels or bring a great idea to life with the potential to make a profit. Young people who participate in a 4-H entrepreneurship project:

- Have access to 4-H entrepreneurial resources.
- Have opportunities to network with other entrepreneurs.
- Develop entrepreneurial skills.
- Increase their understanding of how to develop and operate a business.
- Gain experience operating a business.

Becoming a 4-H Entrepreneurship Club or Group

There are many types and models of 4-H entrepreneurship clubs and groups, but they all have a unique focus on business development. As a result, 4-H clubs, groups, and members who want to be part of the 4-H entrepreneurship project must follow these guidelines:

- Adhere to the 4-H financial management guidelines described in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>) and the *Financial Manual for 4-H Treasurers: Managing Money Wisely* (<https://bit.ly/3t07AgY>).
- Create group or individual business plans for selling goods or services. The Michigan 4-H Youth Entrepreneurship Tools page (<https://bit.ly/3f1vaVR>) includes a business plan template (<https://bit.ly/2OQWXgX>) and a variety of other helpful resources.
- Collect and remit state sales tax and keep thorough, accurate records of the process in accordance with the MSU Extension and Michigan 4-H policies outlined in the 4-H financial manuals, and account for sales tax on their club’s “Annual Financial Summary Report” form (<https://bit.ly/2NBOE81>).



- Have one or more adult volunteers who have completed MSU Extension’s Volunteer Selection Process, or VSP (<https://bit.ly/2OOqTRL>).
- Follow a structure that gives members involved in the business shared responsibility for making decisions and operating the business and club.
- Abide by Michigan 4-H and county guidelines for operating a 4-H club or group.

PROCEEDS VERSUS PROFITS

In this document, the word *proceeds* (also known as *gross profit*) refers to *total income*. The word *profits* (also known as *net profit*) refers to total income minus expenses.

From 4-H Project to Independent Business

One of the ultimate goals of many young people who enroll in a 4-H entrepreneurship project is to start their own independent business. A 4-H entrepreneurship project becomes an independent business when:

- All the risks and financial responsibilities related to running the business fall on the people who own and run it, including purchasing supplies and equipment, marketing, sales, liability, debt, taxes, and losses.
- The business receives no financial support from the 4-H club. The business owner, separate from the club, buys the business supplies, equipment, and other necessities using personal funds or money from investors.
- The business is operating as a separate legal entity from the club. Formal separation can be created by filing a “Doing Business As,” or DBA, with the county clerk or filing a different corporate structure with the Corporations Division (<https://bit.ly/3qWO82k>) of LARA, the Michigan Department of Licensing and Regulatory Affairs.
- The business obtains its own insurance and pays all its own taxes.



4-H Entrepreneurship Models

There are four different models that 4-H entrepreneurship clubs and groups can use when supporting youth business development. Each model is designed to meet the unique needs of groups depending on their focus, time commitment, and structure. The ultimate goal of each model is for the group members to gain entrepreneurial skills.

MULTI-BUSINESS PROJECTS IN A 4-H CLUB OR GROUP

This type of 4-H club operates with multiple members who each have their own sole proprietorship or work on a team as part of a partnership project. A sole proprietorship is the operation of a business by a single person. A partnership is a business operated by two or more people who share the management, responsibility, and obligations of the business.

In this model, the 4-H entrepreneurship club can help generate funds and provide support for specific sole proprietorships and partnerships as long as:

- The opportunity is available to all members.
- The member (if an individual business) or members (if a partnership) complete a business plan and present it to the club membership for a vote of approval.
- The allocation of funds is approved by the membership and documented in the approved club budget, the club minutes, or both.
- Any proceeds from the business activity are returned to the club treasury.
- The club buys supplies using money from its treasury or reimburses a member who bought approved supplies used for the business and submits a receipt for the purchase.
- All equipment and supplies purchased must be accounted for in the “Annual Financial Summary Report” form (<https://bit.ly/2NBOE81>).

GROUP ENTREPRENEURSHIP PROJECT IN A 4-H CLUB OR GROUP

This type of 4-H club or group runs as one business project with all members contributing to operating the business. In this model, members must:

- Agree on the product or service they want to sell and develop a business plan for it together. See the Michigan 4-H Youth Entrepreneurship Tools (<https://bit.ly/3f1vaVR>) for links to information on building a business plan and a “Business Plan Template” form (<https://bit.ly/2OQWXqX>).
- Decide together how the business will operate, the duties of each member, the responsibilities of each member, and other operational procedures.
- Decide together how the club or group will use any profits from the products or services. The profits can be used to attend educational programs such as 4-H Exploration Days, business expos, conferences, and club trips. (The table called “Appropriate Use of Funds” in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* [<https://bit.ly/3tZ9bUJ>] can help members and adult volunteer leaders decide whether a proposed use for business profits is acceptable.)
- Document their group decisions on the product or service they choose, how the business will operate, and how they will use any profits in a club budget, club minutes, or both, and advertise it at the point of sale.

ENTREPRENEURSHIP PROJECTS IN A 4-H SPIN CLUB OR GROUP

A 4-H SPIN (short for **SP**ecial **IN**terest) club or group runs on a short-term basis (typically six to eight meetings or a total of six to eight hours) and has a set end-date. 4-H SPIN clubs or groups are not permitted to open accounts at financial institutions, so all supplies must be purchased by individual entrepreneurs or using money raised through a participant fee. If the supplies are purchased using money from a fee, all expenses and



income must be recorded in the “Michigan 4-H SPIN Club Record of Finances” form (<https://bit.ly/3f0Rq26>) or another, similar document that details expenses and income. In this model, the club or group:

- Must follow the guidelines outlined in the Michigan 4-H “Volunteer Resources for SPIN Clubs” page (<https://bit.ly/3tl6shv>).
- Can operate solely as an educational club, helping members learn the skills they need to start a business.
- Can be a multi-business, group entrepreneurship, or social entrepreneurship club or group.

In this type of club or group, if the members sell goods or services as part of the learning experience, all equipment and supply purchases and all sales transactions must operate independently of the club. Therefore, all profits and losses stay with the individual members.

Because these are not 4-H businesses, the 4-H name and emblem (the 4-H clover) cannot be used in promoting or marketing them. However, because the business began as part of a 4-H project, it is acceptable in promotional and marketing materials to:

- Mention that “This [business/product] was developed as part of a 4-H entrepreneurship project.”
- Include the name of the 4-H entrepreneurship club.
- Note that “As a long time 4-H member, XX . . .” or “XX was a longtime 4-H member.”

SOCIAL ENTREPRENEURSHIP PROJECTS IN A 4-H CLUB OR GROUP

The main goal of a social entrepreneurship project is making positive change in the world. While profits are necessary to accomplish their goals, social entrepreneurship clubs or groups use (and regard) money simply as a tool to affect real change. In this model, members must:

- Agree on a common cause or problem.
- Develop a business strategy outlining how they will support the cause or help solve the problem.

All or part of the profits need to be used to improve society, address a social need, or advocate for a social change. (For ideas on developing a social entrepreneurship business, visit Design for Change at <https://www.dfeworld.com/SITE> or DoSomething.org at <https://www.dosomething.org/us>.) The individual or group must note in all advertising and promotional materials for their product or service the percentage of the proceeds or profits that will be donated and to what cause or organization.

4-H social entrepreneurship projects (or clubs or groups) can follow the multi-business, group entrepreneurship, or SPIN models.



Finances

All 4-H entrepreneurship members need to understand the financial risks involved in entrepreneurship. All members of a 4-H entrepreneurship club or group need to work together to decide how much in club funds to allocate for business start-up costs. Possible sources of start-up funds include fundraising, group fees or dues, donations, sponsorships, and grants. If a 4-H entrepreneurship club or group:

- Decides to create a start-up fund through fundraising, they will be collecting money in the name of 4-H. Therefore, the fundraising must comply with the 4-H fundraising approval and reporting process outlined in *the Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>).
- Uses dues or fees as start-up funds, they should follow the guidance in the “Appropriate Use of Funds” table in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>, pp. 44–46).
- Receives donations or sponsorships for start-up funds, they should acknowledge the donating or sponsorship entity in their marketing. (See “Letter to a Donor Acknowledging a Gift to a 4-H Group” in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* [<https://bit.ly/3tZ9bUJ>, p. 43].)
- Decides to seek grant funding, they must contact their county 4-H program coordinator well in advance of each application deadline to determine the group’s eligibility and the feasibility of applying for the grant.

4-H entrepreneurship clubs need to follow these guidelines to ensure they are complying with Michigan 4-H financial accountability practices:

- The 4-H members involved in an entrepreneurship venture must complete a business plan and have it approved by a vote of the membership before any club or group funds can be allocated to the business.
- All equipment, leftover materials, and supplies purchased for entrepreneurship projects using group funds are club or group property, must stay with the club or group, and must be reported on the “Annual Financial Summary Report” form (<https://bit.ly/2NBOE81>). (See the “Frequently Asked Questions About Michigan 4-H Entrepreneurship” section of this guide for guidelines on independent businesses purchasing unused or unneeded club equipment and supplies.)
- The proceeds or profits from entrepreneurship projects that are supported by club or group funds or that use club or group equipment (or both) must be deposited in the group treasury. In the case of a 4-H SPIN club or group, proceeds or profits need to be recorded on the “Michigan 4-H SPIN Club Record of Finances” form (<https://bit.ly/3f0Rq26>) and ultimately be deposited in the MSU Extension 4-H county account. The use of the money must follow the “Appropriate Use of Funds” guidelines in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>).
- 4-H clubs and groups are not permitted to take out loans from financial institutions.
- According to the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>, p. 4), “A group treasury is necessary if funds are maintained for group use. The public calls for a higher standard of accountability and integrity from public groups. For this reason, it is extremely important that all 4-H groups are transparent and show the source of any money they have received and how it was disbursed. It is very important that the required procedures for money management and reporting are followed and necessary forms are submitted to MSU Extension staff as requested, so the group’s records are complete and up to date.”

QUESTIONS TO THINK ABOUT

Some questions to think about when deciding how to handle the finances related to selling products and services created in 4-H entrepreneurship clubs and projects include:

- Where did the funds used to buy supplies to create the product come from?
- Where is the money from sales going?
- Is the 4-H name or emblem being used in marketing?
- Who owns the equipment used to produce the product or service being sold?



Frequently Asked Questions About Michigan 4-H Entrepreneurship

Q. How is entrepreneurship different from fundraising?

A. The goal of a 4-H entrepreneurship group or project is for participants to learn about and gain experience with operating a business. A 4-H'er does not need to engage in sales to participate in an entrepreneurship project. Entrepreneurship clubs and projects require a business plan for participants to be engaged in sales.

While fundraising can teach some entrepreneurial skills, its main goal is to provide financial support for group members to participate in educational programs or buy supplies for their 4-H group and any group projects they will undertake.

Q. Can a 4-H club or group that is not specifically focused on entrepreneurship include 4-H'ers who want to enroll in an entrepreneurship project? If so, how should money be handled?

A. Yes, young people who are members of any 4-H club or group can enroll in entrepreneurship projects. There are many ways to include entrepreneurship in a 4-H club or group. "Business and entrepreneurship" is a Michigan 4-H project area and 4-H clubs and groups can explore many aspects of entrepreneurship without being an entrepreneurship-specific club or group. If 4-H groups incorporate educational entrepreneurship experiences into their activities, 4-H members should include "business and entrepreneurship" as a project area in their 4HOnline profiles.

Several examples of ways 4-H clubs and groups can include entrepreneurship projects and activities follow:

- § A 4-H livestock club or group could help members learn to calculate the financial break-even point or improve their marketing efforts for their livestock projects.

Handling the money:

Market livestock animals are the property of the individual members, not the club; therefore, any profits from livestock sales go to the individual members.

- § A 4-H crafting club or group could explore pricing strategies for their products at craft sales.

Handling the money:

For members to keep any proceeds or profits from sales of their crafts, they must have purchased the supplies used to make the crafts themselves, not sold the crafts under the name of 4-H, and not used the 4-H name or emblem (the 4-H clover) in their sales materials.

- § A 4-H gardening club or group could choose to practice their customer service skills by selling their produce at a farmers market as a club fundraiser.

Handling the money:

Because this is a club fundraiser, with the profits or proceeds going to the club, the group can use the 4-H emblem in marketing their produce. This 4-H fundraiser also must follow the 4-H fundraising approval and reporting process. (**Note:** If the members had grown and sold their produce individually, they could not use the club treasury for financial transactions or use the 4-H name and emblem in their marketing.)

- § A 4-H volunteer leader could use their own bees, equipment, and supplies to teach 4-H members about raising bees and processing, packaging, and selling honey.

Handling the money:

- The proceeds or profits from honey sales must go to the person or organization who owns the bees, equipment, and supplies.
- If any 4-H club or group funds were used to purchase the bees, equipment, or supplies, the proceeds or profits from honey sales must go into the group treasury and the group must follow the guidelines for appropriate use of 4-H club or group funds.
- No matter who owns the bees, equipment, and supplies, if the 4-H name and emblem are used in selling the products, the sale proceeds or profits must go into the group treasury.



- For 4-H members or volunteers to personally profit from honey sales, they would need to sell the honey as a separate entity and not use any group funds or resources in developing the product.

§ A 4-H club could do a group honeybee project using club-owned bees, equipment, and supplies, and sell honey and honey byproducts as a group fundraiser.

Handling the money:

This is a club fundraiser, so they can use the 4-H name and emblem as long as the profits or proceeds go back to the club. If group members grow and sell their products individually, they cannot run the money through the club treasury or use the 4-H name and emblem in marketing or selling the products, and they must sell their products as individuals or partners. This 4-H fundraiser also must follow the 4-H fundraising approval and reporting process. (**Note:** For this to become a 4-H entrepreneurship project or club or group, rather than a beekeeping fundraiser, the group would need to create a business plan.)

§ A 4-H small-engine club or group could fix lawnmowers for a fee to support the club.

Handling the money:

This is a 4-H fundraiser and must follow the 4-H fundraising approval and reporting process. The group can use the 4-H name and emblem in marketing and selling their products or services as long as the proceeds or profits go into the group treasury.

Q. Can members of 4-H entrepreneurship clubs or groups, or individual 4-H'ers participating in entrepreneurship projects, personally receive the profits from their businesses?

A. No, all money raised using the 4-H name must be used only for educational activities. These funds are owned by the public so they must not be used in any way to enrich individuals. The money may not be given directly to individual members or others, but must be used to pay for educational programs, activities, workshops, or group supplies. To prevent complications, 4-H groups are strongly advised to adopt written procedures for using the funds. (See the "Appropriate Use of Funds" guidelines in the *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* [<https://bit.ly/3tZ9bUJ>].)

Q. Can a 4-H member keep the profits from the sales of their products or services?

A. If individual members provide all their own start up and production costs, they keep the profits from any sales and are responsible for any losses the business incurs. If the club provides funds for the startup and production costs, the profit must be deposited in the club treasury and the club is responsible for any losses the business incurs.

Q. Can an independent business (a business that assumes all risks and financial responsibilities) use the 4-H name and emblem in their marketing and promotional strategies?

A. No, If an independent business is not operated by 4-H, the business cannot use the 4-H name and emblem (the 4-H clover) in promoting or marketing itself. However, if the business started as a 4-H project, it is acceptable to use the following language in promotional and marketing materials:

- "This [business/product] was developed as part of a 4-H entrepreneurship project."
- "This [business/product] originated as a project in the XX 4-H club."
- "As a long time 4-H member, XX . . ." or "XX was a longtime 4-H member."

Q. Do 4-H entrepreneurship clubs or groups have to pay taxes on their income?

A. According to the IRS, "an exempt organization isn't taxed on its income from an activity substantially related to the charitable, educational, or other purpose that is the basis for the organization's exemption. Such income is exempt even if the activity is a trade or business." For more information, see IRS "Publication 598 (03/2021), Tax on Unrelated Business Income of Exempt Organizations" at <https://www.irs.gov/publications/p598>.



Q. When does a 4-H entrepreneurship project become an independent business?

A. A 4-H entrepreneurship project becomes an independent business when:

- All the risks and responsibilities of running the business (for example, purchasing supplies and equipment, marketing, sales, liability, debt, taxes, and losses) are carried by the owner or owners of the business.
- The business receives no financial support from the club.
- The business buys its own supplies, equipment, insurance, advertising, and more using personal funds or money from investors.

In the process of becoming an independent business, the business developers may choose to file a Doing Business As, or DBA, with the county clerk or file a different corporate structure with the Corporations Division (<https://bit.ly/3qWO82k>) of LARA, the Michigan Department of Licensing and Regulatory Affairs.

Q. Can a business owned by one or more of the 4-H club or group's members buy unneeded club equipment or supplies to use in their independent business?

A. 4-H club or group members starting their own businesses can buy unused or unneeded supplies and equipment from the 4-H club at fair market value after a vote of the membership approves the sale. The potential buyer is not allowed to vote on the question. Such sales must be accounted for in the inventory section of the group's "Annual Financial Summary Report" form (<https://bit.ly/2NBOE81>).

Q. What if a 4-H entrepreneurship project loses money or just breaks even?

A. That is OK! Young people can learn a great deal from the project whether their efforts ultimately succeed, fail, or break even. Reflecting on what went wrong and what changes could or need to be made are all part of the learning-by-doing process. Providing the safe environment of a 4-H project for young people to try new things in is a great way to promote innovation and resilience through experience-based learning.

Resources

Michigan 4-H Youth Development and other MSU Extension resources mentioned in these guidelines include:

- Annual Financial Summary Report form (<https://bit.ly/2NBOE81>)
- Business Plan Template form (<https://bit.ly/2OQWXqX>)
- *Financial Manual for 4-H Treasurers: Managing Money Wisely* (<https://bit.ly/3t07AqY>)
- *Financial Manual for 4-H Volunteers: Leading the Way to Financial Accountability* (<https://bit.ly/3tZ9bUJ>)
- Michigan 4-H SPIN Club Record of Finances form (<https://bit.ly/3f0Rq26>)
- Michigan 4-H Youth Entrepreneurship Tools (<https://bit.ly/3f1vaVR>)
- MSU Extension Volunteer Selection Process, or VSP (<https://bit.ly/2OOqTRL>)
- Volunteer Resources for SPIN Clubs (<https://bit.ly/3tl6shv>)

Other resources mentioned in these guidelines include:

- Corporations Division of the Michigan Department of Licensing and Regulatory Affairs, or LARA (<https://bit.ly/3qWO82k>)
- Design for Change (<https://www.dfeworld.org/SITE>)
- DoSomething.org (<https://www.dosomething.org>)
- Publication 598 (03/2021), Tax on Unrelated Business Income of Exempt Organizations (Internal Revenue Service; <https://www.irs.gov/publications/p598>)



Acknowledgments

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