

HOW TO START A NONPROFIT ORGANIZATION IN SONOMA COUNTY, CALIFORNIA

Developed for the Volunteer Center of Sonoma County
Resource Center for Nonprofits

www.volunteernow.org

By Diane Brown, Consultant, The Non-Profit Assistance Group

SHOULD I START A NONPROFIT?

Have I got a great idea...



Many people visit the Resource Center for Nonprofits at the Sonoma County Volunteer Center every year to get help starting a new nonprofit organization.

Usually, they arrive alone, because the new venture is “their” nonprofit. Someone comes up with a “unique” solution to a community problem. Maybe it’s a new method for curing substance abuse, a different way of working with at-risk youth, or a response to a threat to our environment. Whatever the concept, the creator may be so anxious to get started that he or she plunges into the complex paperwork of legal incorporation, signs up a token board, and forges ahead.

But before you begin the incorporation process, it’s important to do some research and planning.

What is needed is:

- To understand the nonprofit world, especially the essential role of a governing board;
- To look at other organizations in the same field of service and see if the idea may be perceived as a duplication of effort;
- To develop a detailed three year Action Plan with a realistic estimate of expenses and income, and a plan for how you will raise the income.

Launching a nonprofit organization cannot be a solo flight. Although it has all the risks of starting a new business, you will not own the fruits of your labor. It will not be “your” nonprofit.

The community will “own” the nonprofit corporation, and it will be governed by a board of community members. These board members are legally responsible for the actions of the nonprofit, including planning, programs, finances, fundraising, public relations, and staff. Usually, they are not paid.

Nonprofit organizations come together to accomplish a mission, or improve the world in some way, rather than make a profit (although nonprofits certainly are allowed to make a profit.)

The main difference between a for-profit and a nonprofit business is that the nonprofit does not have to pay taxes on income related to its mission. Another big difference is that there are no stockholders, and profits are not distributed to board, staff, or volunteers. Instead, the profits are re-invested in the organization to run programs, pay salaries, buy or lease facilities, and cover other expenses.

Almost all nonprofits start as all-volunteer organizations, and most stay that way forever. If they are very successful in raising money, some boards will hire an Executive Director, who can then hire other staff. The founder may or may not be the person they hire as the first employee, and even if they do, the board always has the power to fire the Executive Director.



A Free Resource for Anyone Considering Starting a Nonprofit!

Take advantage of a free treasure trove of information on starting a nonprofit published by the [Southern California Center for Nonprofit Management](http://www.cnmsocal.org/startingnonprofit.html) in Los Angeles:
<http://www.cnmsocal.org/startingnonprofit.html>.

Especially helpful is their 34 page [Get Ready Get Set](#) PDF booklet. [Get Ready, Get Set: A Guide to Launching a Nonprofit Organization](#) is a free guide to help you to explore necessary preliminary questions, such as "Is there an unmet need in the community?" and "Will the organization attract sufficient resources to make the project viable?" The booklet then describes the legal steps involved in incorporation and securing tax-exempt status and concludes with an overview of management systems.



Before you start up a new organization, answer the following 6 questions posed by many nonprofit experts including Joanne Fritz at www.nonprofit.about.com:

1. Am I cut out for this?

Starting a nonprofit is very much like starting a business. It's just that you have to find donors instead of investors. However, donors today demand that nonprofits be run like businesses. You will need a business plan designed to produce measurable results in a set amount of time. You will, just like a small business owner, have to put in long hours, probably without pay, until you can get the new enterprise up and going. Most people who start nonprofits have to keep paying jobs during the startup period. You will need not only passion for your cause but a big dose of entrepreneurial spirit.

2. Is there a significant unmet need in the community?

Nonprofits will only survive if they fill a gap in the community. How do you know if the community needs what you have to offer?

3. Who would we serve?

What is their demographic profile? Are they low income? Single mothers? Kids with AIDS? Where do they live? How many people are there who need your help?

4. What services do our potential clients need?

Conduct a survey of a sample group to find out what they are thinking. You may think they need one thing but they may actually need and want something else. Are they already using a similar service from someone else? Where and how do they need the services delivered? Do they think a new organization like yours is needed? Would they patronize your services? What, if any fees are they willing to pay?

5. Are the resources available?

For most organizations, this means both people and money.

People: How will you recruit and manage the board, volunteers, and possibly, staff? Board members are especially important during the early stages of a nonprofit, since they help develop the mission, guiding principles, vision, and goals. At the beginning they often are also hands-on volunteers while also performing their legal governance duties.

New nonprofits need to carefully recruit board members who have several years of experience on successful nonprofit boards. These veterans can help teach other board members, who might be chosen for their commitment to the goals or for their special skills or knowledge of the field.

The Resource Center for Nonprofits offers both workshops and on-site trainings so board members can learn their legal roles and responsibilities. Other good resources are the Volunteer Center library, their Board Match program, and www.BoardSource.org.

Money: What will it cost to operate your organization for the first three years?

Even if everyone is a volunteer, you will need money for an office space, equipment, phones, copy machines, computers and software, printers, Internet access and website, paper, mailing, insurance, transportation, training, and much more.

Who and how will you raise the money?

Having a passion for your cause is important, but remember that a nonprofit is essentially a business. Starting a nonprofit takes careful program and financial planning, many hours of volunteer labor, and a commitment to learn to fundraise from the all-time best source of donations: individuals. You'll need to [develop a preliminary fundraising plan before you start your nonprofit](#). Don't make the mistake of thinking that all you need is a bake sale or a fancy dinner to raise the money you'll need to properly fund your organization. If you are putting your heart and soul and time into this project, you want to be sure it will be a viable business for the long term.

But aren't there lots of grants to start a nonprofit?

Competition for foundation and corporate grants is fierce, and there are very few that give in Sonoma, Mendocino, or Lake Counties. And if you are lucky enough to get a grant, it is unlikely you will get another one from the same funder the following year. Grants to individuals are usually limited to scholarships and artists.

While grants are not a reliable annual source of funding, there are many other ways to raise money, including fundraising letters, events, phone calls, person-to-person

solicitation, websites, in-kind gifts, newsletters, monthly pledges, United Way designated donations, employer matching gifts, fees for service, and others.

Even though no one was born knowing how to raise money, it's not that hard to learn. The Volunteer Center offers workshops, a lending library, a foundation grant search database, and a list of local consultants to help you. One warning: Don't expect to find a professional fundraiser who will work on commission, as this is not considered an ethical practice.

6. **Are we the most qualified group to provide the services to fill the unmet need?**

Think you've invented the wheel? With so many nonprofits already in existence, it is likely that there is one, or even a few, that have already putting similar ideas into action.

Do your research and locate other nonprofits that are providing a similar service, working with a similar demographic group, or with roots in your geographic area. You must become familiar with your "competitors," who are really your potential allies. Discover other agencies that might be working on your issue in the *Sonoma County 2-1-1 Community Resource Directory* at www.211wc.org or at www.guidestar.org.

Did you know that...

- There are over 1.9 million nonprofits in the United States,
- Over 180,000 in California, and
- Over 3300 in Sonoma County?

The number of U.S. nonprofits has grown at twice the rate of for-profit organizations. Individual donors as well as foundations frequently despair over what they perceive as the **proliferation of nonprofits**.

If there are organizations out there that have the same mission and they do a good job, it is going to be very difficult for you to attract donors, foundation grants, or any other support for a new organization without a track record. You may be passionate about your cause, but the nonprofit "market" will not bear much redundancy.

Potential donors are going to ask you if you will be duplicating an existing service, and if so, why. Funders care less about how unique your organization is or how you feel you are so different from others working on the same issue, and more about how well you can work cooperatively with others to expand and improve services the community clearly needs.

So, take a step back and ask yourself: **Could this community problem be solved more effectively by working together instead?** Make a few phone calls and start talking with people who can share their hard-won knowledge.

Is a new nonprofit necessary?

You don't have to start a new nonprofit to make a difference. Is there another nonprofit that is providing or may provide the program or service you are considering? Maybe your advocacy and expertise can help an established agency improve or expand their services to a new geographic area or help you incubate your idea into a new program that they can offer.

A Terrific Option: Find a Fiscal Sponsor

Many organizations find there is so much work starting up programs, getting known in the community, raising money, and setting up business operation systems that they don't want to immediately take on the time and expense of filing out incorporation and tax-exemption applications.

Instead, they find a fiscal sponsor and go under their legal wing. The fiscal sponsor should be a stable 501(c)(3) organization with a related mission that supports your goals. Your fiscal sponsor can accept grants or contributions on your behalf and offer the donor a tax-exemption through their 501(c)(3). The fiscal sponsor does the bookkeeping and tax reporting and sometimes even provides shared office space and accounting and administrative services.

The organization that is sponsored usually pays a fee to the fiscal sponsor for its services, commonly about 10 percent of the new group's revenues. Their board is ultimately legally responsible for your actions, so you should negotiate a written Memorandum of Understanding (MOU) which clearly outlines the responsibilities of each group and a process for separating assets if you eventually choose to launch out on your own.

While having a fiscal sponsor frees you from incorporating and recruiting a formal board of directors, many organizations choose to set up their own advisory council to provide specialized advice and direction.

You can look for potential fiscal sponsors among the organizations listed in the *Sonoma County 2-1-1 Community Resource Directory* at www.211wc.org. There are also nonprofit organizations which specialize in being fiscal sponsors such as the Tides Center www.tidescenter.org for social change and environmental groups and Earth Island Institute www.earthisland.org for environmental issues. For more information, see www.fiscalsponsorship.com.

Another Legal Option is to Form an Unincorporated Association.

This is simply a group of people who officially come together to perform some social good. The advantages of being an unincorporated association are that there are few legal requirements, and they are easy to set up as a nonprofit entity with the IRS. The disadvantages are that the board members do not have the legal protection that corporate board members enjoy, the association is not tax-exempt, and consequently cannot provide a charitable tax deduction to donors for money they give to the organization.

Thus, Unincorporated Associations often find it very difficult to apply for and receive grants from most foundations and corporations. An Unincorporated Association is a good choice if you are planning a short-term project like building a playground or are going to have less than \$5000 in gross annual revenues.

Or, You Could Do Your Work as a For-Profit Business.

To do good work, you don't have to be a nonprofit. There are many for-profit businesses with a social mission and which donate a portion or all of their profits to charitable causes. Starting your own business as a "social entrepreneur" may be a better option for you if:

- you want sole control over business decisions;
- you do not want a board of directors as your "boss;"
- you may eventually want to sell the business; or
- you do not want to fundraise.



One interesting opportunity is to become a B Corporation - with the "B" standing for "beneficial." It's a new breed of social entrepreneurship that aims to be a bridge between traditional for-profit and nonprofit corporations. In fact, you don't even have to be a corporation, because a sole proprietorship, partnership, LLC, LLP, co-operative, or any other type of business can elect to also become a B Corporation.

Basically, you agree that your business will consider not just the bottom profit line when making decisions, but consider whether their products and services are beneficial to society and comply with sound environmental, employment, and purchasing practices. For more information, contact the B Lab at 610-296-8283 www.bcorporation.net/become.

Some Other Alternatives to Forming a Nonprofit:

- [Volunteer.](#)

Volunteer for a nonprofit that is doing something similar to what you have in mind. Call 573-3399 to talk with our Volunteer Coordinator. Consider [joining a nonprofit board](#), or even [taking a job](#) there. Find which local nonprofits are looking for great board members through the Volunteer Center's [Board Match Program](#). And [check out local nonprofit job opportunities](#) on the Volunteer Center's website. Even if you later decide to start your own group, the experience with an existing nonprofit will help you hone your ideas and learn what is realistic rather than just idealistic.



- [Start a Local Chapter of a National Nonprofit.](#)

Cut through red tape by starting a local chapter of a national organization. Avoid duplication, yet bring needed services to your community.

- [Form or Join a Giving Circle.](#)

Giving circles are rapidly becoming a popular way for individuals to channel and amplify their philanthropic impulses. Giving circles can be small and informal, something like a neighborly potluck, with a few people pooling their money and giving it to a chosen charity. Or they can be highly organized, require contributions of thousands of dollars, and a commitment of many years. Find information about the trend of giving circles and resources, sample documents, and inspiration for starting and maintaining a giving circle of your own at www.givingforum.org/dof/.

- [Set Up a Donor-Advised Fund.](#)
Even with relatively modest resources, you can set up a donor-advised fund which actually makes grants to charitable causes of your choice. Donor-advised funds are mini-foundations, but without the hassle.



Contact Community Foundation Sonoma County at www.sonomacf.org at 250 D Street, Suite 205, Santa Rosa, CA 95445 or 707-579-4073 to talk with them about setting up a donor-advised fund. Similar services are available from many investment firms such as Fidelity and Schwab.

- [Organize Support for a Cause At an Online Social Networking Site.](#)
Yes, you can be an organizer, marshaling the help of many people to aid the causes you care about. Do it all online and magnify your efforts many times over.

So You've Decided You Want to Take the Next Steps to Start a Nonprofit!

If you have done your research, honestly answered the previous questions, and are convinced that your idea needs to find its life in a new nonprofit, then you're ready to tackle the next tasks.

But, make sure you are prepared for the tough road ahead, have the energy for the first steps, and the passion to get you over the hard spots.

Preparing a brief business plan explaining your mission, the community need, organizational goals, and funding objectives can help you gather community support. Answers to the following 5 questions could be included in your plan:



- 1. Why are we in business?**
 - a. What is your mission statement?
 - b. Who will we serve?
 - c. What services do they need?
 - d. What services will you offer?
 - e. How do we evaluate the effectiveness of our services?

- 2. Who are our core supporters?**
 - a. Who are our core volunteers?
 - b. Who will serve on our Board of Directors? Do they have the right mix of skills and representation to govern us?
 - c. Who is most likely to give us monetary and in-kind support?

About half of all nonprofit organizations choose to become a 501(c)(3) organization because it offers one significant advantage over all the others: not only does the organization not have to pay taxes on mission-related income, but it can also offer its donors the opportunity for their gifts to be tax-deductible. Many foundation and corporate funders choose to give grants only to organizations with a 501(c)(3) designation. In addition, you can get a cheaper bulk mailing rate.



Do nonprofits have to file a tax return?

Yes, every tax-exempt nonprofit organization is now required to file an annual tax return, even if they make no money. Small tax-exempt organizations whose annual [gross receipts](#) are [normally \\$25,000 or less](#) are required to electronically submit Form 990-N, also known as the e-Postcard, unless they choose to file a complete Form 990 or Form 990-EZ.

It is a lot of work to get and keep a 501(c)(3) designation, and thousands of organizations choose to just go out and do their good work in the community without jumping through all the state and federal legal and tax hoops. Some find a fiscal sponsor, and some form into an unincorporated association, but most just informally come together with their neighbors to solve a problem or improve the quality of life in their community. They can even accept donations as long as they make it very clear to their donors that they cannot take a tax deduction on their gift.

If You Choose To Set Up A 501(C)(3) Nonprofit Organization in California

Below are some steps drawn from Nolo Press www.Nolo.com and The California Association of Nonprofits (CAN) www.CAnonprofits.org to help you think about incorporating in California and obtaining state and federal tax-exempt and tax-deductible status. Most groups can do these steps themselves, without hiring an attorney.

The best resource is the [California Nonprofit Corporation Handbook](#). This book by Anthony Mancuso is published by Nolo Press and includes a CD with sample forms and approved legal language. You should always download the most recent forms from the appropriate government websites.

If you need help filling out the forms or setting up your accounting system, try hiring a consultant from the Volunteer Center Resource Center for Nonprofits Consultant Directory at www.volunteernow.nu-designs.us/directory.php. Unless you have a very complicated tax situation, you will not need to hire an attorney, but rather someone who has successfully completed several nonprofit applications.

These steps are provided solely as a guide; they do not guarantee that you will be granted nonprofit status even if you follow every step. See a more detailed description for each step below:

1. [Create a mission statement and a program plan.](#)
2. [Determine whether the project is really needed.](#)
3. [Look for an existing organization to adopt your project.](#)
4. [Decide whether you really need to be a nonprofit.](#)
5. [Determine the type of 501\(c\)\(3\) your organization should be.](#)
6. [Decide whether or not you will be a membership organization.](#)
7. [Recruit your founding board of directors.](#)
8. [Choose a business name and get an EIN.](#)
9. [Write articles of incorporation and bylaws and file them with the Secretary of State.](#)
10. [Conduct your first meeting.](#)
11. [Set up your administrative systems.](#)
12. [Seek nonprofit status from the federal government.](#)
13. [After your federal exemption comes through, continue your application to the State.](#)
14. [Become familiar with the annual forms your organization must file.](#)
15. [Following your program plan and your organizational goals, begin to deliver your services.](#)
16. [Seek technical assistance and support.](#)

Step 1: Create a mission statement and program plan.

Before you apply for nonprofit status, carefully think through and write out your organization's purpose or mission. Then, thinking about who you want to serve and where you want to provide services, plan your programs or activities, budget, funding sources, evaluation system, organizational goals, and board leadership. In fact you will discover that, without program planning, you will not be able to answer many of the questions or provide many of the documents required by the incorporation process.

Step 2: Determine whether the project is really needed.

After your program is carefully planned, ask yourself if the community really needs this program to stand alone. Are there many other organizations that are doing this work? Are the resources available to support your project? If the honest answer is yes, the community really does need this program, then proceed to step 3.

Step 3: Look for an existing organization to adopt your project.

The California Association of Nonprofits highly recommends looking for an existing organization which will take your project on as one of their programs. There are over 180,000 registered nonprofits in California alone and thousands more that are not registered, putting charitable contributions and other assets at a premium. Therefore it is to your advantage to partner with an organization already in place rather than starting up a new organization. Seek inclusion with an organization doing similar work or with an organization that has expressed interest in what you are doing. Only if you can't find a home for your project should you seek separate corporate status.

Step 4: Decide whether you really need to be a nonprofit.

Does your project really need to be set up as a nonprofit organization? Realize that there is no advantage to becoming a nonprofit organization except to secure tax-exempt status. (Tax-exempt organizations do not pay income taxes and, if they are a 501(c)(3), donors can also receive a charitable deduction for contributions if they fill out the long tax form.) But competition for charitable contributions and foundation and corporate grants is greater now than ever before, making it difficult to sustain organizations through traditional funding streams. So consider whether you might want to incorporate as a for-profit. You can always switch over to become a nonprofit at a later date if you like, but it is extremely difficult to switch from being a nonprofit to a for-profit.

It is also important to understand that when you become a nonprofit, you give up ownership of your idea because the project now belongs to the people of the State of California, not to the founder or even to the board. The direction and purpose of the project will now be determined by a board of directors acting on behalf of the community. The only way you retain control of your project is to be the owner of a for-profit company.

Step 5: Determine the type of 501(c)(3) your organization should be.

Using one of [the books below](#) and the above list of 501(c)'s to guide you, determine what kind of nonprofit organization you should become. Your group can be incorporated as a charitable or public benefit corporation, a mutual benefit corporation or a religious corporation. A public benefit organization is formed for scientific, cultural or educational purposes that benefit the public. A mutual benefit corporation is a trade association or social group that benefits its members. A religious organization is formed for broad general religious purposes.

Step 6: Decide whether or not you will be a membership organization.

The degree of involvement your members have with the organization may determine whether or not members have legal rights. Most commonly, memberships are really just a fundraising category or opportunity to support an organization financially and do not include the right to vote for the board or determine program direction. A few organizations have members who play a major role in determining the program direction and the makeup of the board. While this is a much more cumbersome process for decision making, it can engender greater loyalty and involvement. Again, your planning process should clarify this question before you begin the incorporation process.

Step 7: Recruit your founding board of directors.



In California, you will need a minimum of three unrelated people, but there is no maximum size. Recruit members who care deeply about your mission and have the skills and time to help you accomplish your goals. It is important to provide new board members with an orientation to both the work of the organization and to their legal roles and responsibilities. You can take a workshop at the Resource Center for Nonprofits or request a board trainer come to meet with your board at your office by calling 573-3399 x 115 or 116.

Step 8: Choose a Business Name and Get an EIN.

Before you form your nonprofit corporation, you need to decide on a name that complies with the rules of the California Secretary of State's office. You must check to be sure the name of your nonprofit is not already being used by any other California corporation. Your name may be [checked for availability](#) or [reserved](#) for a period of 60 days.

Nowadays, you'll also want to consider your online website name, also called a domain name. Go to [NetworkSolutions](#) and search to see if your preferred name is available.

In order to open a bank account you will need to get an Employer Identification Number or EIN from the IRS. This is a nine-digit number assigned by the Internal Revenue Service to all for-profit and non-profit businesses. The IRS provides information about the EIN at its website: www.irs.gov.

- [Online Application](#)
- [IRS Q&A for EIN](#)

Step 9: Write articles of incorporation and bylaws and file them with the Secretary of State.

The program planning steps should help you with this process. You will need to include your mission statement in the Articles. Use language that is acceptable to the IRS and to the Franchise Tax Board and meets certain standards, which are outlined in the [California Nonprofit Corporation Handbook](#). This book by Anthony Mancuso is published by Nolo Press and offers examples and models of bylaws and articles of incorporation on the enclosed CD that you can adapt.

Basically, the Articles should include the name of the organization, how you are organized according to state law, a statement of purpose (mission), a statement saying you will not engage in activities forbidden by law, dedication of assets, providing for distribution of assets upon dissolution and name and addresses of agents. You will have to pay a filing fee when you file the Articles; some of the money will be returned if tax-exempt status is confirmed within a specific timeframe.

Bylaws outline the governance procedures of the organization and must be consistent with California nonprofit laws including the Nonprofit Integrity Act of 2004. See the California Attorney General's publication "[Guide to the Nonprofit Integrity Act of 2004.](#)" www.ag.ca.gov/charities/publications/nonprofit_integrity_act_nov04.pdf.

Forms and general information for incorporation from the California Secretary of State are [available online](#).

- Overview of laws in California
- Sample articles of incorporation

Submit Articles of Incorporation to:

*Business Programs Division
1500 11th Street
Sacramento, CA 95814
Attn: Document Filing Support Unit
Information: (916) 657-5448
Web Site: www.sos.ca.gov/
Filing Fee: \$35*

Step 10: Conduct your first meeting.



Conduct your first meeting to appoint directors, accept the Articles of Incorporation, adopt the bylaws, authorize submission of your tax-exempt application and authorize any financial transactions such as opening your bank account. Your new board of directors must take this step. With this meeting, the board of directors assumes legal and fiduciary responsibility for the new organization. After you submit your Articles, you will receive a Domestic Nonprofit Corporation Statement

from the Secretary of State. Within 90 days of filing the Articles of Incorporation, submit this Form SI-100 (Statement of Information) to:

*Secretary of State
Statement of Information Unit
P.O. Box 944230
Sacramento, CA 94244-2300
Information: (916) 657-5448
Web Site: www.sos.ca.gov/
Filing Fee: \$20 (\$50 penalty if late.)*

Step 11: Set up your administrative systems.

Develop recordkeeping procedures for both your finances and your board meeting minutes. Try to recruit a volunteer or board member who has nonprofit fund accounting experience to help you set up your bookkeeping systems, as these standards are different from for-profit accounting methods. If you need training or assistance, look in the Consultant Directory. Determine liability, Directors and Officers, or other insurance needs.

Step 12: Seek nonprofit status from the federal government.

Read the tax exemption application before filing your articles. While you can't actually file your exemption application until the corporate filing office has approved your articles of incorporation, before you file your articles, take a couple of hours to learn what it takes to qualify for the tax exemption. If you file your articles and then discover a problem as you begin working through the tax exemption application, you could be stuck paying taxes while you work through these issues -- or even learn too late that your group isn't eligible for an exemption.

To apply for federal tax exemption, you must fill out and submit [Form 1023](#), *Application for Recognition of Exemption* and Form 8718, and *User Fee for Exempt Organization Determination Letter Request*, to the [IRS](#).

For filing fees and instructions on filling out these forms, read IRS Publication 4220, [Applying for Tax Exempt Status](#); Publication 557, [Tax Exempt Status of your Organization](#); Publication 4221, [Compliance Guideline](#) and [Typical errors made in filing](#). (You can obtain all of these items for free by calling 800-TAX-FORM, you can download them from the IRS website at www.irs.gov or by picking them up from the Federal Building at 777 Sonoma Ave., Santa Rosa, CA 95404. They are open Monday-Friday - 8:30 a.m.- 4:30 p.m. Phone (707) 523-0924.) If you need help deciphering the IRS-speak, consider downloading the Nolo Press plain-English eGuide, *Nonprofit Corporations: Tax Exemption: Qualify for Federal Income Tax Exemption*.

You will have to submit a budget and fundraising plan with Form 1023. Again, if you have completed the program planning, this part of the process will be fairly easy to do. Your federal application determines whether your organization meets the "public support test." (To receive and maintain 501(c)(3) status, an organization must receive most of its money from broad public sources or from government. That is why it is important to clearly think through where funding will come from.)

Submit Form 1023 and Form 8718 to:

Internal Revenue Service

P.O. Box 12192

Covington, KY 41012-0192

Information: (800) 829-1040

Forms: (800) 829-3676

Web Site: www.irs.gov/charities

Filing Fees: \$ 400 for organizations whose gross receipts are \$10,000 or less annually over a 4-year period or \$ 850 for organizations whose gross receipts exceed \$10,000 annually over a 4-year period or \$ 3,000 for group exemption letters.

Step 13: After your federal exemption comes through, continue your application to the State.

After you receive your tax-exempt status letter from the IRS you may request state exemption by submitting a copy of the federal determination letter from the IRS and filing California [Form 3500A](#), Affirmation of Internal Revenue Code Section 501(c)(3) with the [California Franchise Tax Board](#). The questions are very similar to the IRS Form 1023. Once you have received the federal exemption, the state exemption is usually routine.



Submit Form FTB 3500A with a copy of the IRS Determination Letter to:

Exempt Organizations Unit MS F120

Franchise Tax Board

PO Box 1286

Rancho Cordova, CA 95741-1286

Information: (916) 845-4171

Web Site: www.ftb.ca.gov/

Filing Fee: \$0

Note: If the effective date of federal tax-exemption differs from the incorporation date of the organization, than it should file Form FTB 3500 to obtain California tax-exemption with an effective date that is the same as the date of incorporation.

After you have incorporated with the state, you will receive a Notice to Register and a Registration Form ([CT-1](#) or [Unified Registration Statement](#)). Within 30 days of receiving assets for the charitable purposes for which organized, submit CT-1 with Articles of Incorporation, Bylaws, IRS 501(c)(3) determination letter, most recent IRS Form 990, and a statement describing the primary activity of the organization (a copy of the statement of purposes from the IRS 1023 application will suffice) the state Registry of Charitable Trusts (RCT). The RCT oversees the activities of public benefit nonprofits in California. (Schools, hospitals, and religious corporations do not file with the RCT.)

State of California

Office of the Attorney General

Registry of Charitable Trusts

Sacramento, CA 94203-4470

Phone: (916) 445-2021

Fax: (916) 444-3651

Web Site: www.caaq.state.ca.us/

Filing Fee: \$0

Step 14: Become familiar with the annual forms your organization must file.

Once you have incorporated, there are three annual reports you must submit -- [RRF1](#) with the [Attorney General's office](#), [Form 990](#) with the IRS ([Office of Exempt Organizations](#)), [Form 190](#) with the California [Franchise Tax Board](#) -- and one that you must submit biennially: the Statement of Domestic Nonprofit Corporation with the Secretary of State.

The IRS's Exempt Organization Division's "[Life Cycle of a Public Charity](#)" section has all the filing information for the federal forms, and another good resource from the Attorney General's office is the "[Guide to Charities](#)."

Read [Legal Responsibilities of Your Nonprofit \(PDF\)](#) published on the website of the [Southern California Center for Nonprofit Management](#) at <http://www.cnmsocal.org/startingnonprofit.html>

Step 15: Following your program plan and your organizational goals, begin to deliver your services.

Continually monitor client satisfaction, program effectiveness, and expenses in relation to your budget and update the program plan as needed.

Step 16: Seek technical assistance training and support.

Forming your nonprofit organization is just the beginning. You will want to make sure your organization is well managed, well governed and meets a valuable and needed purpose.

After you have incorporated, be sure to look over the workshops and other helpful services at the **Resource Center for Nonprofits** and consider becoming a member so you can get a 25% discount on workshops, onsite trainings, and conferences.

Download the latest workshop schedule at www.volunteernow.org. Stop in to our offices at 153 Stony Circle Suite 100, Santa Rosa, CA 95404 and check out books from the nonprofit library, search for potential foundation and corporate grant funders in the Foundation Center database or call the staff with a question at 707-573-3399 x 115 or x116. They can help connect you with potential volunteers and board members, and get you started fundraising with the Human Race.



HOW TO KEEP IT GOING

Sustaining a nonprofit is much harder than starting one. Nonprofits fail at the same rate as for-profit businesses, and for similar reasons:

- The smallest fail at a greater rate.
- They don't understand the field and can't compete in a tight marketplace.
- They have poor business management practices.
- Leaders misjudge time requirements and try to do it all alone.
- There is high volunteer and staff turnover.
- They lack a well-trained, appropriate board of directors.
- There is no business or strategic plan with clear program, fundraising, and organizational goals.

To avoid these pitfalls, invest in the time it takes to become an expert both in your program field and in nonprofit management. You need to:

- Develop a detailed three year Action Plan with a realistic estimate of expenses and income.
- Create a realistic plan for how you will raise the income.
- Build a strong, effective board of directors.
- Deliver high-quality programs that fill a need in the community.
- Establish sound fiscal and management systems.

Some resources to help you do this are listed below:

PLACES TO LEARN:

Resource Center for Nonprofits at the Volunteer Center of Sonoma County

153 Stony Circle, Suite 100, Santa Rosa, CA 95401

www.volunteernow.org

Staff: Jean Bertelsen 573-3399 x 116, jbertelsen@volunteernow.org and Chris Cram 573-3399 x 115, ccram@volunteernow.org

- Information and referrals
- Board training at your agency
- BoardMatch recruitment of volunteer board members
- Lending library
- Telephone help for your questions and referrals to consultants and trainers
- Workshops (scholarships available)
- Online Nonprofit Consultant Directory
- Grant funding search software (Foundation Center Online Directory)
- Website with links to online resources
- Volunteer placement
- Executive Director, Financial Manager, and Volunteer Coordinator roundtable discussion groups
- Compensation survey reports
- Nonprofit Conference
- Human Race community fundraiser

Sonoma State University www.sonoma.edu Master's Degree classes in nonprofit management, proposal writing, marketing, planning, governance, and financial management through the Political Science Department 664-2179 www.sonoma.edu/polisci/. Register through Extended Education www.sonoma.edu/exed/openuniversity/

Santa Rosa Junior College www.santarosa.edu Grantwriting and fundraising courses sometimes offered through the Community Education Department. <https://busapp02.santarosa.edu/CommunityEducation/ListCourse.aspx>

Sonoma County Library www.sonomalibrary.org Books on nonprofit management, access to grant funding search software (FC-Search) and free workshops to learn how to use it at the Central Library, 211 E St., Santa Rosa 95404

BOOKS, eBooks, AND WEBSITES:

[Get Ready, Get Set: A Guide to Launching a Nonprofit Organization](#), is a free guide written by Peter Manzo and Alice Espey and published on the website of the [Southern California Center for Nonprofit Management](#). This guide will help you to explore necessary preliminary questions, such as "Is there an unmet need in the community?" and "Will the organization

attract sufficient resources to make the project viable?" The booklet then describes the legal steps involved in incorporation and securing tax-exempt status and concludes with an overview of management systems.

[The California Nonprofit Corporation Handbook, 12th Edition](#), by Anthony Mancuso (Nolo Press, 2007). This self-help legal book details the advantages and disadvantages of nonprofit status, explores where and how nonprofits get their funding, the legal rights and responsibilities of various parties, requirements for tax exemption, the differences between major types of nonprofits, and a detailed, step-by-step process on the legal and practical process for incorporating as a nonprofit in California. It is updated frequently to reflect recent changes in laws and regulations, and comes with a CD-ROM containing all the required forms.

Starting a Nonprofit Organization: Turning Vision into Reality

Free 38 page e-book from BoardSource with advice for the founding Board of Directors and steps for getting started. http://www.boardsource.org/dl.asp?document_id=17

Fiscal Sponsorship: 6 Ways To Do It Right by Gregory L. Colvin, Study Center Press, 1095 Market Street, Suite 601, San Francisco, CA 94103, 888-281-3757 www.fiscalsponsorship.com.

Starting A Nonprofit Thorough, free 75 page download on how to organize a nonprofit, set up a board, plan how to raise funds and deliver programs, conduct meetings and network with other nonprofits. Created by the National Minority AIDS Council but applicable to all nonprofits. Download at www.nmac.org/index/oes-english

Board Development, Fiscal Management, Human Resources, Needs Assessment, Program Evaluation, Strategic Planning, Technology Development, Faith-Based Leadership, Leadership Development, Grant Writing, Surviving an Audit, Volunteer Management. Excellent series of free manuals also developed by the National Minority AIDS Council but applicable to all nonprofits. Download at www.nmac.org/index/oes-english

All Hands on Board: The Board of Directors in an All-Volunteer Organization by Jan Masaoka. Free download of this 20 page E-Book board development manual from BoardSource. http://www.boardsource.org/dl.asp?document_id=13

[Legal Responsibilities of Your Nonprofit \(PDF\)](#) Free 14 page download on corporate reporting requirements, employee-related laws, licenses, and maintaining tax-exempt status. <http://www.cnmsocal.org/startingnonprofit.html>

California Nonprofit Integrity Act Toolkit by Steve Zimmerman and Jeanne Bell. CD and guide to compliance with the 2004 California nonprofit version of the Sarbanes-Oxley Act. www.compasspoint.org

Roberta's Rules of Order by Alice Collier Cochran

Modern, commonsense ways for groups to discuss issues, make decisions, and have productive meetings. Jossey-Bass Publishers www.josseybass.com

Nonprofit Meetings, Minutes & Records: How to Run Your Nonprofit Corporation So You Don't Run Into Trouble, by Anthony Mancuso, Nolo Press. www.nolo.com

Starting & Building a Nonprofit: A Practical Guide, by Peri Pakroo - Nolo Press. www.nolo.com

Starting and Running a Nonprofit Organization, 2nd edition by Joan Hummel. University of Minnesota Press, Minneapolis 1996. Besides the legal process, it covers establishing a board, budgeting, personnel, planning, public relations, and more.

Strategic Planning for Nonprofit Organizations by Byron Barry Amherst Wilder Publishers/Fieldstone Alliance www.fieldstonealliance.com

Discover Total Resources Free Fundraising Primer
<http://www.mellon.com/communityaffairs/guide/DTR.pdf>

Fundraising for Social Change by Kim Klein Jossey-Bass Publishers
Best starter fundraising book, very user friendly. www.josseybass.com

Planning Special Events by James Armstrong Jossey-Bass Publishers
www.josseybass.com

Grassroots Grants: An Activist's Guide to Proposal Writing by Andy Robinson; Jossey-Bass Publishers www.josseybass.com

Winning Grants Step by Step: Support Centers of America's Complete Workbook for Planning, Developing, and Writing Successful Proposals by Mim Carlson. www.josseybass.com

Marketing Workbook for Nonprofit Organizations by Gary Stern. Amherst Wilder Foundation Publishers/Fieldstone Alliance www.fieldstonealliance.com

Websites and Online Resources

Sonoma County 2-1-1 Community Resource Directory www.211wc.org Lists most human services and other nonprofit organizations in Sonoma County.

BoardSource (formerly National Center for Nonprofit Boards)
Publications, FAQs, free e-books. www.boardsource.org

IRS Website www.irs.gov/charities You can download A Tax Kit for Exempt Organizations <http://www.irs.gov/charities/article/0,,id=96774,00.html>, Frequently Asked Questions <http://www.irs.gov/charities/content/0,,id=96986,00.html>, info on the application process, searchable database of exempt organizations, and much more.

State tax exemption forms 800-852-5711 www.ftb.ca.gov

[Logic Model Workbook](#) This online program planning tool walks you through the logic model development model which is a valuable tool for program planning and evaluation.
www.innonet.org/client_docs/File/logic_model_workbook.pdf

Technology help for nonprofits, e-newsletter, donated software for a small administrative fee.
www.techsoup.org.

Volunteer management information. www.energize.com

Answers to Frequently Asked Questions on nonprofit management with topics such as how to start-up a nonprofit organization, drafting a business plan, raising funds, and building a board, technology planning, and how to effectively run a nonprofit are available from:

Nonprofit Genie <http://www.compasspoint.org/askgenie/index.php>

Free Management Library www.managementhelp.org

[501\(c\)\(3\) - To Be or Not to Be?](#) Attorney Anthony Mancuso FAQs on the incorporation process from the Summer 1996 issue of The Grantsmanship Center Magazine.

<http://www.tgci.com/magazine/501%20c%203-%20To%20Be%20Or%20Not%20To%20Be.pdf>

About.com www.nonprofit.about.com

www.nonprofitlaw.com

[The Foundation Center FAQ.](#)

http://foundationcenter.org/getstarted/faqs/section_4a.html

Society for Nonprofit Organizations

<http://www.snpo.org/resources/startingnonprofit.php>

[Starting A Non-Profit Organization: A Resource List](#) Michigan State University

<http://staff.lib.msu.edu/harris23/grants/znpbib.htm> Identifies organizations and book resources that can assist in starting a nonprofit organization.

[Starting A Nonprofit Organization](#) Carter McNamara

www.managementhelp.org/strt_org/strt_np/strt_np.htm List of links and issues that need to be considered when starting a new organization.

Credits

This content was developed by Diane Brown, consultant with The Non-Profit Assistance Group of Sebastopol, CA For more information about Diane, visit www.NonprofitAssistance.com and www.volunteernow.nu-designs.us/directory.php