

STARTING A NON-PROFIT ORGANIZATION

Developed by the Executive Service Corps of Washington Providing Affordable Consulting Services to Non-Profits and Schools

“Generosity with wisdom is like two wheels of a cart.”
Japanese proverb

There is a great deal of information available for and about non-profits. However, for someone just starting a non-profit organization, the information can be overwhelming. This “tool-kit” is intended to direct you through some of the most important early steps in forming a non-profit. This document is most useful when you receive an electronic copy and can use the active hyperlinks. To request a copy, email officemgr@escwa.org.

Many people consider forming a non-profit because they see a problem that they believe they could address. Or they have an idea about a product or a service that would benefit people or the community. In this way, starting a non-profit organization is just like starting a for-profit business. You have to have a good product and there has to be a “market” or a need for that product.

Part 1: Should you start a business or a non-profit?

You need to determine if your idea is best executed through a for-profit business or a non-profit organization. Starting a non-profit has all the requirements of starting a business plus **additional requirements**, particularly if you want to be able to accept tax-deductible donations as a tax-exempt organization (for a helpful comparison go to www.nonprofits.org/npofaq/18/82.html).

In a for-profit organization, the owners, or the people who represent the owners (for example, the board of directors), can decide what they want to do with any net earnings or “profit” generated by the business. Most for-profits are sole proprietorships, partnerships, limited liability companies, or corporations.

Non-profits can – and should – have a “profit” or a surplus of revenues over expenditures. They should have some money left over each year to invest in improving the organization and in protecting the organization in the face of unexpected costs. What makes non-profits different from for-profit corporations is that they cannot distribute their profit to the organization’s members, directors, or officers.

WHY FORM A NON-PROFIT CORPORATION?

A group of people can get together to do something that benefits the community without forming a legal non-profit. If you are not going to ask for or receive donations, collect any income for the service or product you offer, own property, have a bank account, or hire staff, you could simply be an informal organization.

If the activities of your group require you to form a non-profit corporation, these are some of the advantages that may be available to your organization:

- An organization granted tax-exempt status (501(c)(3)) does not pay federal income tax (rates range from 17% to 34%).
- Many grants and charitable donations from individuals, foundations, corporations, and the government are available only to non-profit organizations.
- Donations made by individuals, foundations, and corporations to certain tax-exempt non-profits are tax-deductible.
- Forming a non-profit organization can help assure that the organization continues to exist in the future even if you are not personally involved.
- Forming a corporation can protect you personally from some types of liability for the operations of the non-profit.
- Non-profits are eligible for reduced postage rates for bulk mailings.
- In the State of Washington, non-profit arts organizations are exempt from paying sales tax on expenses directly related to programs, and may apply for an exemption from Seattle Admissions Tax (5%).

Go to: www.mycorporation.com/nonprofit.htm for more general information on non-profit corporations. Several companies provide web-based services that can help you efficiently establish a corporation. Go to www.form-a-corp.com or www.mycorporation.com or www.bizfilings.com or www.corporate.com. These organizations can help you avoid legal fees for establishing a nonprofit corporation.

WHY NOT WORK WITH AN EXISTING NON-PROFIT?

Before setting up a brand new non-profit consider if there are established organizations within the community that serve the same or a related purpose, or target the same population. You may be able to advance your ideas much more quickly by working through an existing organization.

Conduct interviews

Set up interviews with organizations that have a similar or related purpose. Contact potential donors, the people you want to serve, and community leaders in order to assess if your mission can best be accomplished through an existing or a new organization.

If you find an existing organization with a purpose similar to the one you are seeking to establish, consider joining the organization as a volunteer or ask if they would create a program to carry out your ideas.

Consider finding a fiscal sponsor

You should also consider partnering with an existing organization before going through the process of setting up a brand-new non-profit. Such a partnership is called “fiscal sponsorship.” A sponsoring organization oversees the financial affairs of the sponsored organization and provides administrative support, as needed. Typically, a portion of the funds raised go to the fiscal sponsor to offset their costs. This type of arrangement can reduce your administrative costs substantially and give you access to professional management services. It can also give you credibility with funders and potential donors.

To assess fiscal sponsorship go to:

- www.managementhelp.org/finance/np_fnce/np_fnce.htm
- www.non-profits.org/npofaq/02/01.html

A leading fiscal sponsor is the Tides Center in California. For information on becoming a project of the Tides Center and general information on fiscal sponsorship go to www.tidescenter.org/becomingaproject.cfm

Part 2: What kind of non-profit?

If the organization needs to be a separate legal entity that can own property and have a bank account, you will need to incorporate with the state.

State regulation

There are many types of non-profits. The rules for each type of non-profit are slightly (but sometimes importantly) different. Washington State allows the creation of a non-profit corporation “for any lawful purpose.” It is important that you know all of the options for being a non-profit and chose the option that matches your organization’s activities. Contact the Secretary of State’s Office for more information at 360-902-4151, PO Box 40220, Olympia, WA 98504 or www.secstate.wa.gov.

Federal/IRS regulation

In addition to state regulation of non-profits, the IRS administers the federal tax regulations that apply to non-profits. The tax status of a non-profit depends on how the IRS interprets the nature of the organization and its services.

- Tax-exempt non-profit – Most non-profits that accept grants and donations from individuals, businesses, and foundations are non-profit corporations eligible for tax exemption under the IRS. The Internal Revenue Service (IRS) gets involved because corporations are, in general, required to pay federal corporate income taxes on their net earnings. Before you file with the IRS to be a tax-exempt organization, you must be incorporated.
- Probably the best known type of non-profit is the IRS classification of 501(c)(3), a “charitable non-profit.” To view various kinds of tax-exempt (Section 501) organizations, see www.irs.gov/publications/p557/ar01.html.
- To obtain information about Tax Exempt Status contact the Internal Revenue Service directly at 1-877-829-5500 or visit their website at: www.irs.gov . Information on tax-exempt non-profit status is included in IRS Publication 557 at www.irs.gov/pub/irs-pdf/p557.pdf.
- Tax-exempt non-profits are able to accept tax-deductible contributions. Being tax-exempt does not necessarily mean you are eligible to receive tax-deductible donations (donations individuals and corporations can deduct from their income taxes). See IRS Publication 526, “Charitable Contributions,” at www.irs.gov/pub/irs-pdf/p526.pdf.

Part 3: The legal sequence for forming a non-profit organization

The King County Bar Association publishes “How to Start and Maintain a Non-profit Organization.” The handbook gives you detailed information on the steps to forming a non-profit; these steps are summarized below.

The following are the specific steps to be taken in order to establish a non-profit organization that meets legal requirements.

1. **Develop a board of directors.** The board must be a minimum of three people but should be more, generally 7-12. The board should include people not related to the person who will be managing the organization.

Resources about boards of directors include:

- www.standardsforexcellence.org
- CompassPoint’s Board Café at: www.boardcafe.org
- Board Source at: www.boardsource.org
- www.managementhelp.org/boards/boards.htm
- United Way of King County at: www.uwkc.org/nonprofit/training/default.asp
- Information on the approach to board governance called policy governance can be found at: www.carvergovernance.com

Develop a profile or list of characteristics you want in a person on your board of directors. These characteristics may include certain kinds of expertise but it is a good idea to consider personal characteristics such as how the person works within a group and their experience on a board as well.

Also **develop a list of commitments** you want board members to make such as attending board meetings, making a financial contribution to the board, participating on a board committee, etc. Have each person who joins the board sign this commitment form.

2. **Reserve the organization’s name.** To avoid possible infringement on a reserved name, do a thorough search on all business names you will use. In Washington State, check the Business Search Line at 1-900-463-6000 (this will cost about \$6.00) and the Trademark Division of the Secretary of State at (360) 753-7120. Also contact the U.S. Patent & Trademark Office at 1-800-786-9199 (www.uspto.gov). Contact the Secretary of State’s Corporate Division at: www.secstate.wa.gov/corps. The fee is \$20. More information can be found at: www.dol.wa.gov/mls/startbus.htm#Whati.
3. **Prepare and file the Articles of Incorporation.** File two sets of Articles of Incorporation with Washington State’s Secretary of State’s Corporate Division to gain incorporation status at: www.secstate.wa.gov/corps. The fee is \$30. For non-profit corporations, there is no annual corporate license renewal fee, but there is an annual report fee of \$10. The forms are at: www.secstate.wa.gov/corps/registration_forms.aspx.

Sample articles of incorporation and bylaws from Non-profit Resources are available at: users.aristotle.net/~nonprofit/startup/startup.html#Articles.

Other examples are found at the following websites:

- www.lagoonpoint.com/documents/LPIC%20Articles%20of%20Incorporation.pdf
- www.biobased.org/association/pdf/incorporation.pdf

4. **Apply for Federal Employer Identification Number (EIN);** Form SS-4, from the IRS. This number works like a Social Security Number for your organization. Instructions for Form SS-4 and Form SS-4 are available at: www.irs.gov/formspubs/lists/0,,id=97817,00.html.

You can apply for an EIN through the website at

www.irs.gov/businesses/small/article/0,,id=102767,00.html or by mail to Internal Revenue Service, ATTN: Entity Control, Holtsville NY 00501. Toll Free 1-877-829-5500, Fax 1-513-263-3756.

5. **Prepare organization's bylaws.**

Examples and information about writing bylaws are found at the following sites:

- Educause, a Washington DC education non-profit: www.educause.edu/about/includes/bylaws.pdf.
- A Chicago based non-profit: www.chisechum.org/bylaws.htm

6. **Develop a business plan (see Part 4).** This process will help you if you apply to the IRS for tax-exempt status, and will be the basis for grant applications and fundraising solicitation.

7. **Conduct an initial meeting of the board of directors.** Prepare an agenda in advance of the meeting so that the organization is clear about what it needs to accomplish in the meeting.

8. **Apply for non-profit designation from the IRS.** If your organization is likely to qualify, apply for tax-exempt status at the IRS at: www.irs.gov by completing all the paperwork of application form "Publication 557." Include the processing fee of \$150, and return all paperwork to the IRS. Remember: If you expect to collect donations that are tax-deductible you need to get IRS approval as both a tax-exempt organization and as an organization able to accept tax-deductible contributions. Non-profit organizations file for 501 C (3) tax-exemption status using Form 1023 at: www.irs.gov/pub/irs-pdf/f1023.pdf.

9. **Obtain needed state licenses:** The state has a "Master Application" that is used to apply for a state Unified Business Identifier (UBI) number as well as many state licenses. It is also used to register Trade Names (Doing Business As names). Before completing an application, you may want to view business license information and view or print out the License Fee Sheet at: www.dol.wa.gov/forms/700028.htm to help you determine the fees and forms required for your business. Applications and online instructions are also available at this site.

As a non-profit, you are also required to file non-profit articles of incorporation; see the form at: http://www.secstate.wa.gov/corps/eforms_notice.aspx

You may also contact the state directly if you have regulatory questions: Washington State Secretary of State, 801 Capitol Way S, PO Box 40234, Olympia WA 98504-0234, 360-753-7120 or toll free Washington State only-1-800-332-4483. You can also visit: www.secstate.wa.gov/

10. Obtain a business license from the city in which you are doing business.

The City of Seattle requires all businesses located within the city limits, or who conduct business within the city limits, to be licensed with the city. For the City of Seattle go to: www.pan.ci.seattle.wa.us . The online application form for the City of Seattle can be found at: www.cityofseattle.net/rca/licenses/Blicform.htm.

Certain business licenses may require approval through city police, planning, fire and building departments. Call the Seattle Department of Executive Administration at 206-684-8484. A directory of city departments is at: www.cityofseattle.net/directory/.

Address information: Seattle (King County) WA, Executive Administration, Revenue & Consumer Affairs, 700 Fifth Ave, Ste 4250 Seattle, WA 98104-5020 USA, Phone: 206-684-8484, Fax: 206-684-5170

11. Meet county licensing requirements. Contact the county(s) you plan to do business in to get information on any county license requirements.

For King County, licensing with the cities you do business in is sufficient, unless you will also be doing business in unincorporated King County as well. Address information: King County Business License Office, 900 Oakesdale Avenue SW, Renton, WA 98055-1219. Phone: 206-296-6600. Or go to: www.metrokc.gov/ddes/business/index.shtm

For Pierce County, go to: www.co.pierce.wa.us/pc/abtus/ourorg/aud/Licensing/business_license.htm

For Snohomish County: www.co.snohomish.wa.us/index.htm

“The fellow that can only see a week ahead is always the popular fellow,
for he is looking with the crowd. But the one that can see years ahead,
he has a telescope, but he cannot make anyone believe he has it.”
Mark Twain, *Autobiography*. (1949)

Part 4: Developing a Business Plan

In order to give the board, staff and volunteers of the organization a road map for building a successful organization, you should develop a business plan for the new organization.

Having a concise business plan will help you respond to questions from the State and the IRS. Also, a clear business plan becomes an introductory document to distribute to community leaders, potential board members, staff, and partners in the venture. There are many books and software programs published that offer 'how-tos' for developing a business plan; some library or online research through e-tailers (Amazon, Borders, etc.) will lead you to choices that work for your organization.

- Resources on business planning, including some samples, are located at: www.mapnp.org/library/plan_dec/bus_plan/bus_plan.htm
- The Community Technology Centers website offers an excellent step-by-step process for developing a non-profit business plan: www.ctcnet.org/resources/toc.htm
- A sample for-profit plan can be found at: www.bulletproofbizplans.com/bpsample/Sample_Plan/sample_plan1.html
- The Scholarly Publishing and Academic Resources Coalition (SPARC) provides a business plan manual: www.arl.org/sparc/GI/toc/index.html

Steps to Developing a Business Plan

- 1. Document the need for the organization** - You need to document the need for your organization by describing the problem you intend to address or the need for the service or product you will provide. Documentation can be from quantitative sources such as census information, government reports, statistical studies, or research. It can also come from qualitative sources such as informal community surveys, discussion groups, and interviews with community leaders or experts on the issue. If you are going to provide a service or product to individuals it is a good idea to survey, conduct focus groups, or meet with potential users of your service to determine their interest and needs.
- 2. Develop a mission statement** - The mission statement explains why the organization exists. It provides a direction and focus for the organization's employees, board, and volunteers.
 - What is the problem or need your organization is addressing?
 - How is your organization different than other similar organizations?
 - Who benefits from your work?

In no more than a few sentences a mission statement needs to communicate the essence of your organization to your stakeholders and to the public. The mission statement should focus on particular goals the organization would like to achieve, and can provide momentum for activities within the organization. It is a good idea to involve the board of directors in the development of the mission statement.

3. **Describe the Program** - Develop a detailed description of the program, including a projected budget for operating the program. The budget should include all the typical costs of doing business such as taxes, insurance, financial services, phone/internet and supplies, as well as facility and personnel costs.
4. **Develop a Financial Plan** - A feasibility study should be conducted to gauge the likelihood of success for the program. Write down all your assumptions about how many people will access the program, how long it will take to be operational, and what the staff and operation costs will be. Also record your assumptions about the environment in which your program is working; consider other organizations that provide a similar program or service, economic trends, and the number of people in your target population/audience.

Develop a budget for startup and the first year of operations. Be sure to include business expenses like insurance, taxes, payroll and professional services. Set services based on comparisons with similar non-profit organizations rather than private sector businesses. Include specific funding sources you are targeting for support, estimate the range of support that you expect from each source, and evaluate the viability of the organization if you receive the **low** end of that estimate. Validate your assumptions by researching the giving histories of the organizations you will be asking for funds. Assume that a new organization will be much less likely to receive support than an organization that has existed for some time.

Online courses in non-profit budgeting are available from:
www.smarterorg.com/budgeting_description.htm

Part 5: Management Obligations of a Non-profit

Tax-exempt non-profit organizations can, and do, operate in most ways like any business. They have bank accounts, own productive assets of all kinds, receive income from sales and other forms of activity, make and hold passive investments, employ staff, enter into contracts of all sorts, etc. Non-profits must follow sound business practices in all these activities.

Non-profit organizations have additional obligations that for profit companies or sole proprietorships do not. There are specialized tax rules and accounting practices that apply to non-profit organizations. If the organization is of a certain size, the organization must disclose the IRS form 990 to the general public, state regulators, and watchdog agencies. The IRS form 990 includes any salaries paid to officers or directors and the five highest-paid employees, and contracts over \$50,000 in the tax year. The form also requires the organization to divide its expenses into "functional categories" – such as programs, administration, and fund-raising – and to report the total expenditure for each category along with the amounts expended on each program activity.

Paying Business Taxes

Federal taxes: Call the Internal Revenue Service at 1-800-829-3676 to order a business tax kit. Federal taxes may be paid by electronic transfer. In some cases, payment through electronic transfer is mandatory. Enrollment forms are available by calling either 1-800-555-4477 or 1-800-945-8400. You may also file some of your federal tax returns electronically. Contact the IRS at 1-800-829-1040 to obtain information on electronic filing.

Municipal business taxes: Washington cities tax private businesses, municipal, and private utility companies within their boundaries. Contact each city in which business will be conducted.

Property and personal property tax: You must report your business property, furniture, equipment, supplies, etc., to the assessor of the county in which your business is located. King County Assessor (206-296-7300): www.metrokc.gov/assessor

Hiring and managing employees

Some general information on the requirements for employees can be found at:
<http://access.wa.gov/employment/workerrights.aspx>

All employers are required to report all newly hired and rehired employees to the Division of Child Support (DCS):

Department of Social and Health Services

1-800-562-0479

New Hire Reporting - www.dshs.wa.gov/newhire

You must also complete a Federal I-9 form for every employee and submit to:

Immigration and Naturalization Services

815 Airport Way S. Seattle WA 98134 (206) 553-5956 1-800-870-3676

Resources for Recruiting Employees

- Idealist.org offers a Washington state non-profit job listing service: www.idealists.org
- PNN Online publishes jobs nationwide:
pnnonline.org/modules.php?op=modload&name=phprofession&file=index
- Northwest Development Officers' Association provides a job posting service at:
www.ndoa.org
- ExecSearches is another nationwide posting service for non-profits:
www.execsearches.com/exec

Also consider four year and Community Colleges, especially those with non-profit curriculum. Many of these have periodic on campus job fairs, as well as publishing jobs on their sites:

- Bellevue Community College: www.bcc.ctc.edu/careers
- Seattle University: www.seattleu.edu/student/cdc
- University of Washington: www.ischool.washington.edu/resources/career/default.aspx

“The things we fear most in organizations—fluctuations and change—need not disturb us. Instead, fluctuations are the primary source of creativity and cleverness.”
Margaret Wheatly, *Leadership and the New Science*.

ESC Consulting Services

ESC is a non-profit organization that provides consultants to private non-profits, government and schools on a reduced fee basis.

ESC’s 120+ consultants are active, semi-retired, and retired professionals who have skills they want to contribute to their community. Some have experience as senior managers or executives in business; others are professional consultants and people whose have professional experience as principals, non-profit executive directors, government leaders, or other non-profit professions. Go to www.escwa.org to request consulting services or contact Executive Director Nancy Long at 206-682-6704.

ESCWA is a part of a national network of Executive Service Corps in many cities. To check for an affiliate in another state go to www.escus.org/where.html.

SOME OF THE SERVICES OFFERED BY THE EXECUTIVE SERVICE CORPS	
Strategic planning	Leadership coaching
Interviewing and information gathering	Personnel policies and salary schedules
Organizational merger/ facilitation	Marketing, internal communications, and public relations
Fund development planning	Meeting planning and facilitation
Curriculum research and development	Governing board development
Financial policies and procedures, financial system reviews	Forming and managing advisory boards
Recruitment plans for staff, boards, advisors; transition plans	Project planning, management, and implementation support
Development of evaluation tools	Policy Governance® workshop and facilitation of policy development

ONLINE RESOURCES

Management Information and general resources

- ‘Knowledge hub’ for non-profits, developed by the Non-profit Management Program of the Robert J. Milano Graduate School of Management and Urban Policy at New School University: www.newschool.edu/milano/Npm
- The Internet Non-profit Center: www.non-profits.org

- Leader to Leader Institute (formerly the Drucker Foundation): www.leadertoleader.org
- Non-profit Center: www.npcenter.org
- The nonprofit center: www.nonprofitcenter.com
- The Nonprofit Management Education Center Learner Resource Center: www.uwex.edu/li/learner/library.htm
- Center for Philanthropy and Nonprofit Leadership: www.npgoodpractice.org
- Free management library: www.managementhelp.org
- Information center contains extensive information on governance: www.mncn.org
- Noted for quality of its research and information on best practices: www.compasspoint.org
- This site focuses on strengthening leadership and fostering inclusiveness and collaborations: www.allianceonline.org

Development Resources

- NDOA

Nonprofit organization directories and Job listings

- Idealist.org – Leading site for nonprofits. Includes job listings, volunteers and consultants www.idealist.org
- Guidestar.com – Make sure your organization is listed and get info about potential partners www.guidestar.com
- Artist Trust - Artist Trust provides information on both employment within the arts and varied other employment opportunities of interest to artists on their website www.artisttrust.org/4artists/information/opportunities/default.html

Governance and boards of directors

Below are the websites that have information on board related issues

- BoardSource (formerly The National Center for Non-profit Boards): www.boardsource.org
- United Way of King County: www.uwkc.org/nonprofit/default.asp
- The Nonprofit Center: www.nonprofitcenter.com/
- Nonprofit Good Practice Guide: www.npgoodpractice.org
- Whatcom Council of Nonprofits: www.wcnwebsite.org/practices/index.htm

Grants and fundraising

- For grant information go to the Foundation Center at www.foundationcenter.org. They also have online library of resources for grantseekers can direct you to books and articles that may be helpful: lnps.fdncenter.org
- Contains latest national data on giving and volunteering: www.independentsector.org
- They are building a resource center with information for starting, running and funding an organization: www.npgoodpractice.org

Local Libraries

- Seattle Public Library: www.spl.org
- King County Library: www.kcls.org

Financial Management

- Carolyn Cunningham at United Way maintains a list of bookkeepers that work with nonprofits: ccumingham@uwkc.org
- Washington Association of Accountants: www.waa.org

Other sources for Financial Management information are:

- www.mapnp.org/library/finance/np_fnce/np_fnce.htm
- New Federal regulations for non-profits (also see below):
www.muridae.com/publicaccess/index.html

Accounting Practices and Sarbanes-Oxley Act

Because of the recent passage of the Federal Sarbanes-Oxley Act, new accounting disclosure issues need to be considered. See below:

- Sarbanes-Oxley Act: www.aicpa.org/info/sarbanes_oxley_summary.htm
- Discussion on principles for Board Members:
www.directormalpractice.com/0005/articles/art-dm200210.pdf

Legal services

- Directory of pro bono legal services:
www.abanet.org/legalservices/probono/directory.html
- A lawyer referral service is available through the King County Bar Association (206-267-7100): www.kcba.org/ScriptContent/KCBA/LRS/index.cfm
- Washington Attorneys Assisting Community Organizations: www.waaco.org
- Washington Lawyers for the Arts: www.wa-artlaw.org
- Nonprofit assistance Center sponsors legal clinics on the 3rd Monday of the month at Seattle University. Call for information and an appointment: 206-324-5850 x 10

Volunteers

- A wonderful site covering every aspect of volunteer management: www.serviceleader.org
- People can find volunteer opportunities all over the country by zip code or area of interest: www.volunteermatch.org
- United Way sponsors a website www.volunteersolutions.org where people can search for volunteer opportunities by zip code or area of interest.

Executive Service Corps of Washington does not endorse any publication or product listed within this toolkit and sincerely encourages potential non-profits and organizers to contact a lawyer familiar with non-profit law. ESC wishes you the best of luck in forming a non-profit!

“That is what I consider true generosity: You give your all
and yet you always feel as if it costs you nothing.”
Simone de Beauvoir, *All Men Are Mortal*.