



Is Your Nonprofit Compliant with State Registration & Audit Rules?

Did you know that 13 states consider the “donate” button on a nonprofit’s website an act of active solicitation? Find out what that means for your organization.

By Lewis Sharpstone

You know that your organization is subject to federal and state regulations for the state(s) in which you operate. But some state requirements are easy to overlook.

Say your organization operates in only one state and you therefore assume you aren’t required to register or comply with nonprofit regulations in any other state. Is this a safe assumption?

The answer is no, you can’t make that assumption. If you do any online fundraising, you could be subject to other state rules.

Rules You Need to Know

First, take note of the Charleston Principles, which were developed by the National Association of State Charity Officials (NASCO). These principles address whether online charitable solicitations by a nonprofit constitute an activity that requires the organization to register in a state. Simply put, the principles say that you needn’t register in another state if you:

- don’t specifically target people located in that state
- don’t routinely receive contributions from people in that state
- don’t otherwise have to register in that state, and
- are only conducting a general online solicitation.

“Some state requirements are easy to overlook.”

The Charleston Principles aren’t mandatory but were offered as a guide to be adopted or adapted on a state-by-state basis, and indeed many states have made use of them.

Thirteen states, however, didn’t adopt the Charleston Principles. These states consider the “donate” button on a nonprofit organization’s website an act of active solicitation in their state, triggering registration requirements. These states are Alabama, Florida, Georgia, Illinois, Kansas, Louisiana, Maine, New York, North Dakota, Ohio, Oklahoma, Rhode Island, and Utah.

Then there’s the state of California. The good news is that California did adopt the Charleston Principles. However, since California represents about 10% of the U.S. population, almost all nonprofits (except those with a purely local focus) receive contributions from Californians. That means most nonprofits are required to register in California — and are subject to the state’s nonprofit annual audit requirement.

State nonprofit audit requirements are common — 27 states require that certain nonprofits registered in that state have an audit. Which nonprofits are subject to the requirements

“Your organization’s name might appear on the website of a state charity regulator with other non-compliant charities.”

varies state by state. Often, a nonprofit already obtaining an audit will have little extra to do other than submit the audit to the state. However, California’s audit requirements are a bit different.

If a nonprofit is required by California law to have an audit, California has specific requirements as to the composition of the audit committee. Beyond requiring an audit committee, California law mandates that no more than half the audit committee can be composed of individuals who are members of the finance committee, prohibits certain other individuals from serving on the audit committee, and prohibits the chair of the audit committee from serving on the finance committee.


If you’re now thinking that you may be required to register in other states, it’s tempting to wonder if you can just “let sleeping dogs lie” and only file in other states if it’s requested. As a nonprofit advisor, I would be concerned if I heard an organization was only willing to consider pursuing compliance with state laws after being contacted by a governmental agency. There is a reputational risk that your organization’s name might appear on the website of a state charity regulator with other non-compliant charities. It stands to reason that donors and other stakeholders would prefer the organizations they support take a more proactive approach – knowing what state laws they’re supposed to follow, then taking steps to comply before any issues arise. To me, proactively complying with all state laws is a fiduciary duty of those in governance roles.

Some may wonder if states like California really expect nonprofits domiciled in other states to register and follow their audit requirements. The answer is, of course, yes. California has the highest audit threshold in the U.S., \$2 million, which helps avoid over-burdening small nonprofits. But if you need to comply with the California nonprofit audit requirements, the state government believes you have no excuse not to do so.

You might think that a state government like California’s is unlikely to reach out to inquire if your organization should be registered. But it’s actually quite likely to occur. It could happen if, for example, a California donor tries to research your nonprofit on the California Attorney General’s website, doesn’t find your nonprofit registered, and submits an inquiry to the Attorney General. If you don’t register in a state when registration is required, or if you register but then don’t comply with the audit requirements, you risk losing that donor’s support. Probably not a good business decision.

How to Avoid Breaking the Rules

What can you do to sidestep these compliance pitfalls?

- 1. Unless you’re a small nonprofit supported by and solely serving your local community, consult with a state compliance service provider** to check that you’re filing in all the states in which you’re required to file.
- 2. If you’re filing in multiple states, double-check** the specific audit requirements of each state, determine the most stringent of such requirements, and comply with those. 

Lewis Sharpstone, CPA (lsharpstone@bdo.com) is an assurance partner in BDO’s Los Angeles office and leads the West Region’s nonprofit practice. A nonprofit specialist with over 25 years of experience, he has worked with over 200 nonprofits, large and small, in every sector of the industry, including education, healthcare, social service organizations, arts and cultural institutions, associations, religious organizations, foundations, and nonprofits with international focus. This article is excerpted from BDO’s Nonprofit Standard newsletter. Special thanks to California nonprofit attorney David Wheeler Newman and California-based Charity Compliance Solutions, Inc. for their assistance with this article.

Stay Abreast of Your Legal Responsibilities

For more, see these articles at NonprofitWorld.org:

Do Your Board Members Know Their Fiduciary Responsibilities? (Vol. 33, No. 1)

Nonprofits without Audit Committees Risk Disaster (Vol. 22, No. 2)

Do You Need to Register before Raising Funds? (Vol. 27, No. 6)

Need a CPA at Little Or No Cost? Five Ways to Find Help (Vol. 28, No. 2)

When Using Fundraising Pages, Must You Register in Every State? (Vol. 34, No. 1)

Do Your Board Members Understand their IRS Obligations? Form 990 & the Intermediate Sanctions Act (Vol. 36, No. 3)

Make Good Use of the Treasurer and Finance Committee (Vol 27, No. 2)

The IRS 990 Return: It’s More Important Than You Think (Vol. 16, No. 2)

New Rule for Reporting Fundraising Costs (Vol. 16, No. 6)

Do You Have These Four Crucial Committees? (Vol. 32, No. 4)

Get Ready for a Better Audit (Vol. 30, No. 2)