

Transcript  
Public Housing Neighborhood Networks  
Conference Call  
May 28, 2008

“501(c)(3) & Sustainability

Operator: Thank you for standing by and welcome to the Winning Combination 501(c)(3) and Sustainability conference call. Today’s conference is being recorded. At this time, I would like to turn the conference over to Ms. Marcia Ross, please go ahead, ma’am.

Marcia Ross: Good afternoon, everyone. My name is Marcia Ross, the project manager for Public Housing Neighborhood Networks. And I want to take a moment to thank you for participating in our first Public Housing Neighborhood Networks conference call of 2008. We are glad that you joined us and we are excited about today’s topic, the Winning Combination 501(c)(3) and Sustainability.

Today, our experts will share with you the benefits of obtaining an IRS 501(c)(3) tax-exempt designation for Neighborhood Networks centers. You will learn about state and federal application processes, board development, required fees, completing the 1023 form, and filing the 990 tax return form.

Our speakers today are Kay Sohl, executive director for TACS. Established in 1977, TACS stands for Technical Assistance for Community Service; the company offers training and consulting resources for nonprofits. Our next speaker will be Daniel Dragoo of the Internal Revenue Service. Mr. Dragoo has been a senior revenue agent with the Exempt Organizations Division for seven years.

Marcia Ross: Also, if time permits, I’m going to share with you 10 things you should know before going through the process, as stated by Mindy Weldon, who is the Neighborhood Networks Coordinator

for the Spartanburg Housing Authority in Spartanburg, South Carolina. Mindy intended on being with us today but she is under the weather and since she has just recently completed the 501(c)(3) process, she has some tips she'd like to share with you. Before we get started, I want to introduce our Government Technical Monitor for Public Housing Neighborhood Networks, Dina Lehmann-Kim. Hi, Dina.

Dina Lehmann-Kim: Hello, it's great to be on today's call and I want to thank all of the participants and all of our speakers, Daniel Dragoo and Kay Sohl. We're sorry that Mindy Weldon couldn't be with us, but they have a wealth of knowledge and experience that hopefully you will find interesting and, I think, valuable as you try to continue to become sustainable centers. So, thank you again, very much Daniel and Kay.

Marcia Ross: After our speaker presentations, we will open the call for questions and our expert speakers will be available to answer those questions. So, let's get started with Kay Sohl of TACS. Please refer to the PowerPoint presentation attached in the conference call announcement sent to you this morning. Good afternoon, Kay.

Kay Sohl: Thank you. It's nice to be here and I hope that we can be helpful to everyone on the call. As you see in the second slide of the PowerPoint, what we're going to be talking about first is the actual core formation of a nonprofit corporation, the first step in moving towards tax-exempt status. Then, we're actually going to talk about that tax-exempt status itself and what it means, why you want it, what some of the challenges are in getting it. We will be talking about Form 1023, which also came to you by e-mail. We're not going to be going through that form page by page, but we are going to be talking about some of the challenges of keeping that tax-exempt status after you obtain it.

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Kay Sohl:

So, if you want to click on through your slides until you come to the one that says overview of tax-exempt status, it's the fourth slide in. I think the starting point for understanding this process is to know that many organizations that seek tax- exempt status under section 501(c)(3) of the Internal Revenue code are seeking that status for two reasons. One of those reasons is that they want to be sure that should their income exceed their expense in any year, they don't have to pay federal corporate income tax. But a much more important reason for doing this is that they want to be sure that they can apply for foundation funding and they can also apply to individual donors and know that those donors will be able to deduct their contributions to the organization as a charitable tax deduction on their own tax returns. That's why an organization would seek this status. And now, we're going to talk about how do you do it and what's involved.

Well, the starting point in understanding what's involved is to realize that in the United States, the formation of corporations is handled by the individual states. And we're going to start there because what you will find when you start trying to talk with the IRS and interact on the federal level is that the first set of questions are going to be about the nature of your organization. You're going to find that in almost every case, things are going to be much simpler if you first form a non-profit corporation in your state.

So, that's going to be a starting point. Each state has a different state office that handles the incorporation process. We can give you some tips on finding out where that is in your state.

Then, after you have formed your corporation, you're going to seek tax-exempt status by applying to the IRS. The IRS will make a decision as to whether you do qualify or you don't qualify for tax-exempt status and they will let you know that decision in writing. We'll talk about some of the challenges that will come up to ensure that you live up to the promises that you will have made during the application process.

Kay Sohl:

So, I'm about to move on now to the sixth slide that says, "*to be eligible for 501(c)(3) status*". These are the two important things to know. The IRS determines whether you qualify

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based on two guiding principals. The organization, your corporation, has to be organized exclusively for exempt purposes. And it has to be operated exclusively for exempt purposes. The IRS has a specific meaning to that.

So, let's start by going to the next slide and thinking about this issue of being organized for exempt purposes. When the IRS is using that term, organized, they are talking about what is in your articles of incorporation and in your bylaws. The articles of incorporation are the document you will have filed with your state. And in those articles of incorporation, you're going to need to have put the specific provisions that are required for the IRS to determine that you have been organized for exempt purposes.

We'll talk about a few of those provisions, but really, the best way to be sure that you're doing this, is to work with an attorney with a lot of experience in tax-exempt organizations. Another way would be to read the directions that the IRS has provided with the 1023 form that you'll be using and to see the information that they provide about what's required in your articles of incorporation. There are several major provisions that have to be there and we'll go back to those in a moment.

In terms of understanding the steps, your first step is going to be to incorporate within your state. Your next step is going to be to form an initial board of directors. And you're going to find, in all the states, that the board of directors has the top governing authority for your corporation. They are the people in charge, ultimately. Once you form that board, you're going to have to hold a first meeting with them. There's a variety of tasks that need to be done in that first meeting. That's the kind of thing that an attorney can advise you on and we can also give you some references to help you. But, one of the main things that you're going to want to do and need to do to get ready to apply for tax-exempt status, is to adopt bylaws. Bylaws are written guidelines on how your corporation is going to carry out its business. There are a lot of good sample bylaws available on the Internet and we can help you find some. You're also going to

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need to start, during the first meeting of your board, keeping good corporate records. That means keeping a file of all of your meeting minutes and all of your corporate documents.

Now, we're going to move on to talk about how you would go from this very beginning organization to preparing the actual application for tax-exempt status. The first thing that you're actually going to have to do to fill out Form 1023 is to obtain a federal employer I.D. number. That I.D. number, you'll see on the slide, is easily obtainable; you can do it on the Internet or by phone. Don't be confused by the name of that number, you don't have to have employees to need this number. This is the equivalent of your corporation's social security number.

Once you get the employer I.D. number, you'll be ready to complete the application for tax-exempt status. We'll skip over the diagram on the determination process because you're going to hear a little bit more from the IRS on the actual process later in this call. But I wanted to talk a little bit about some of the most important parts of the application, the parts that actually turn out to take the most thought in planning. These sections of the application have the greatest impact on whether your application is approved really quickly or whether your application becomes bogged down in back and forth questions and answers with the IRS.

So, I'm now on the slide that says "*key part of the form 1023*". I want to mention a couple of the key elements to help you think about getting ready to apply.

Probably the most important element of the application is the narrative. You can just jot down PowerPoint notes, but you'll see the question that asks for the narrative on page two of the 1023. Actually, part nine, that's Roman numeral nine, is asking you to describe, very clearly, what your organization has already accomplished, what you are doing right now and what you expect to be doing in the future. It is your answer to this question that the IRS will use to figure out, in part, whether you're going to operate for an exempt purpose.

Now, in working on this narrative, if you just flip ahead to the next slide, "*narrative tips*." I think you can save everyone a lot of trouble by using the "show it to your neighbor test." After you get done writing this section of the application, I really urge you to show what you have

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written to someone who doesn't know anything about your organization. Ask them to tell you what they have understood by reading it. Do not tell them anything in addition to what's on the written page.

What you're going to find is that often, when you've been involved in an organization, is that your first effort to describe your accomplishments to someone else leaves them wondering what you're really doing. This does not have to be a complex writing task. It's very straightforward if you remember that you have to explain to the IRS what you have already done in the past, what you are doing now, and what you are going to do.

This brings us to one of the challenges that some of you will have, because your centers have already been operating for a number of years within the housing authority. You're going to have to make that extremely clear in this description. You'll need to distinguish the work that was done before you formed your new corporation from the work that you will have begun as a new corporation and will be doing in the future. Those are your basic tips on writing that narrative. The strongest tip is to show it to someone else before you send it in and ask them to tell you what your organization is doing.

Now go back a slide to the one that says *key parts of the form 1023*. The other part of the form that most people find challenging is the financial section that appears on Roman numeral page nine and ten. And in completing this part of the form, I think my best advice has two parts. First, read the directions very carefully. If you read them, you will understand that the terms used on the form are fairly specialized, not necessarily the way they're used in everyday speech. So, you'll want to follow the directions. Second is to understand why the IRS is asking these questions and the level of detail required in the answers. They're really not looking at this in the same way someone would in a grant application. Their interest is much more about where the money will come from, and your major sources of revenue. The IRS also wants to know about the overall size of the award that you anticipate, so you want to be realistic about the size.

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And by that I mean, it makes quite a bit of difference whether you're thinking your center will run on \$100,000 or \$10 million.

We probably are not going to have time to talk about the public charity status in this call, although I think we may hear a little bit about it from the IRS. But, I do want to talk a little bit about the advanced ruling period and the major requirements that you're going to have to live up to once you obtain tax-exempt status. You'll use the advanced ruling period if you apply right after you create a new corporation. I think that's what most of you are going to do, so I think we'll assume that you will request an advanced ruling.

Now, I want to move on and talk just a moment about the key rules for the 501(c)(3) organization. That's two slides forward. And just to remind you, as a 501(c)(3), your organization will be able to lobby, which means to try to influence legislation. There are limitations on how much money you can spend, but you can lobby. However, you absolutely cannot engage in political activity, which means being for or against a candidate.

You're going to have to read over the directions to the form to understand conflict of interest. This is an area of great concern and it has to do with what happens when insiders, like board members or staff, have financial interactions with your nonprofit.

Now, we've gone very, very quickly through the basics of this application. I think there are several pieces that we want to be sure everybody understands. Then you'll have a chance to go back and ask questions later in the call. One thing to understand is that after you have submitted your application and the IRS has hopefully approved it, they will send you a letter that they have determined that you qualify for tax-exempt status under section 501(c)(3). You're going to want to be very careful to save that letter, because it's proof of your tax-exempt status.

You're going to have to be prepared to file an annual report with the IRS if your center is very small, with under \$25,000 a year in gross receipts. The report you're going to file is nothing more than an electronic postcard. But, if you're going to be larger than \$25,000 a year, you'll need a 990 form, which requires financial information about your organization. It's going to be

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very important to understand the deadlines for filing those reports because there are substantial penalties for failure to file.

Now I'm going to the next slide, "*the state oversight of charities*". In many states, you'll find that the state provides additional oversight for the organizations that qualify for section 501(c)(3), federal tax-exempt status. So, you'll need to investigate whether there is an additional registration required in your state. Typically it's required with the attorney general of your state. Most states have the charitable oversight in the attorney general's office.

Now, the final two slides of the PowerPoint are some additional resources, particularly Web resources. There is one additional topic that I want to be sure we mention before we transition to the IRS part of this call. In just this very quick review of the steps to apply for tax-exempt status, I think you can see that it requires a lot of effort to create the corporation, to organize the board, to set up the bylaws, and to complete the application itself. Even after you are successful and are determined by the IRS to qualify for 501(c)(3) status, there is still more work to do. You need to register with your state and file your annual report with the IRS.

Kay Sohl:

Some new organizations may want to consider fiscal sponsorship instead of going through that process right away. This requires that your group find another organization that qualifies under 501(c)(3) and approach them about becoming your fiscal sponsor. There are a number of requirements that that group will have to meet to take responsibility for contributions that are made on behalf of your project, and to complete accounting of how those funds are spent on your project. But, using the fiscal sponsorship provisions can be very helpful to a new group that may not feel ready to go through the tax-exempt application process. If some of you are interested in that option, we can talk about it a little bit more in the question period.

And with that, I'm going to turn this over to our next speaker.

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Daniel Dragoo: OK. Thanks, Kay. This is Daniel Dragoo and I am with the Internal Revenue Service. I am a revenue agent in the Exempt Organizations Division, actually the determinations branch, which is the division that reviews these applications for exemption.

If everyone would open the attachment that came with the e-mail that Miss Ross sent that is titled "form 1023". The first thing I want to do is go into a little more detail on some of the more difficult portions of the 1023. Most of these are the items that we see a lot where we have to ask additional questions because they weren't completed fully when they were originally submitted. So, hopefully everyone has that attachment open and I'll just go through page by page.

Page one is pretty straightforward. The one thing I would say to be aware of is that sometimes we see applications where the name of the organization on the very first line of the application does not match the name on the organizing document, which would be the articles of incorporation that Kay referenced in her presentation. So, one thing you want to make sure that the organization name matches the name on the articles of incorporation. The rest of page one is just identifying information and yes or no questions that are pretty straightforward.

If you scroll down to page two of the application, it is also fairly straightforward. If you follow the guidance that Kay discussed you would be a corporation, so you would want to check yes there, and skip the rest of those numbers.

As Kay said in her presentation, part four, which is the narrative description of your activities, is one of the most important parts of the application. That is because this is our main consideration when we are determining whether you qualify for exemption. We have to know, in great detail, your activities. Kay talked about the past and present planned activities and that is definitely something we need to know. One thing I usually try to tell people is to include the what, who, how, where and when for each one of your activities when you're writing this narrative description. You not only want to explain your purpose, but you want to go into great detail about how you're going to complete that purpose.

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As an example, if you are running a computer learning center for an afterschool tutoring program, there are many different ways you can operate those activities. So we would want to know specifics as to where that activity is going to be conducted. Who owns that facility, what type of rent is paid? What group of people is generally going to attend your activities? Are there any fees paid? If there are fees, what are they? That's the kind of information, who, what, where, when and why, that we need from an organization. That actually speeds up the process for your organization. That will hopefully eliminate the need for any questions back and forth between the IRS and your organization to clarify those points. For pages three through eight in the application, I know sometimes the application looks a little overwhelming, but for the most part, pages three through eight are just yes or no questions. They're are specific to your individual organization and you should be able to just go through and answer those questions. They're fairly self explanatory. The one thing I would caution you is, for any yes or no question that requires additional information, make sure you do attach that additional information. That is one thing that will hold up your application and require additional questions. Several of the questions say, if you answer yes, be sure to explain. So, that's where you would definitely need an attachment that explains your yes or no answer.

I believe the next portion of the application is one of the more confusing parts, the financial data, is on page nine of the application. Please scroll down to page nine. I believe she said we're going by the assumption that most of the people on this call are forming fairly new organizations or maybe haven't even formed an organization yet. So, since that's the case, if you look at the form here, in column A, you want to enter actual information for the current tax year. For columns B and C, you would want to enter information for two future tax years. When we say enter information for two future tax years, we are talking about projected revenues and expenses. It is very important, as Kay mentioned, as one of the main things we are looking at is your sources of support. Indicate whether you receive gifts, grants, or contributions, which would be

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on line one. Gross receipts from admissions, if you were charging fees for services, would go on line nine. Indicate the estimated amounts so we can just determine the size of your organization. We also looked at expenses to make sure that there are not expenses being paid for things that aren't really an exempt purpose. So, make sure you post your expenses on the correct lines.

As you're filling out the application, for anything that you think doesn't really tell the tale of where you're expenditures or revenues are going, you can always submit attachments that explain greater detail. Hopefully, that will not lead to further questions, which, as I said before, would hold up your exemption application further.

Daniel Dragoo: Moving on to line 10. This is the portion where Kay was talking about your private versus public foundation status and your advance ruling. This is probably the most complex portion of the application. On part 10, halfway down the page, it says "public charity status." As you're completing this application, the question it asks is "are you a private foundation or a public charity?"

Private foundations are organizations that are generally supported by one individual or a family of individuals. For example, the Gates Foundation, funded by Bill Gates would, most likely, be a private foundation. In other words, it is receiving all of its revenue from contributions from one individual or family. A public charity is an organization that receives support from a broad public source. Government grants, foundation grants, contributions from the general public, even fees for services from the general public, would qualify as being a public charity.

So, for probably everyone on this conference call, your organizations would not be a private foundation, but would most likely be a public charity, so you would want to check "no" on line 1A where it asks if you are a private foundation. By checking no, it asks you to skip down to item five at the bottom of page 10. And this asks you specific questions, if you are a church, a school, a hospital, and so on and so forth. And, as I understand it, none of the organizations on this call would qualify as a school, a church and so on.

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From the information I have, most of your organizations would qualify on page 11, under item G, which is 509A1 and 170B1A6. This simply means that your organization will receive a substantial part of your financial support from public sources, contributions from the public, government grants, and foundation grants. So, most likely, you would want to check the box beside item G.

The next portion of the application, on page 11 also, is whether you are applying for an advanced or a definitive ruling. Your organizations will all be fairly new, meaning you haven't completed a tax year of at least eight months. So you would not qualify for a definitive ruling. Therefore, you would want to request an advanced ruling on item 6A, by checking the box requesting that advanced ruling. And then sign, or make sure a member of your governing body signs, which would most likely be your board of directors. They would need to sign and date the middle of page 11 to request that advancement.

Then we can move on to page 12, where it discusses the user fee. Any organization that expects to receive more than \$10,000 annual gross revenue is required to pay a user fee for us to process the application and that user fee is \$750. If you are expecting to receive less than \$10,000 per year in gross revenue, then you are required to pay \$300.

Finally, on the application, one of the things that will definitely slow down the application process is if the application itself is not signed by a member of your governing body. So, make sure before submitting the application that it is signed on page 12.

Now, on this attachment to the e-mail are several other schedules. I'm not going to go through each one of the schedules. Most of those will likely not apply to your organization, for example, schedule A is for churches, schedule B is for schools and so on and so forth. So, if the schedule does not apply to your organization, you are obviously not required to complete that schedule. So you would only complete schedules that do apply and for most of your organizations, there probably are none that apply.

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OK, so that's a real quick run-through of the application. I can answer any questions in the question-and-answer period about the specific application. The next thing I wanted to do is just give you a brief run-down of the process that your application goes through once you apply for exemption.

Once your application is received by the IRS, a case is established that goes through an initial screening process within the first two to three weeks of receipt. In that screening process, a revenue agent will review your case briefly. If there are no issues, if everything is completed correctly and your responses to the questions do not develop new questions by us, then you will receive a determination letter stating you are income tax exempt under section 501(c)(3). If there are very minor details that need to be completed, such as signatures, or a box checked here or there or just minor information, it goes to a group that we call the accelerator processing group and they will contact you, within another week or two, to get that information.

If there are major issues, or things that will require more time than just getting the signature, it goes to our general inventory. That is where your application will be held up for just a little longer period of time. It goes into our files and waits for the next available agent. So, that's why it is important to describe your activities in as much detail as possible, make sure you have signatures where they belong, have all of the appropriate boxes checked, and attach the additional information, when you submit your application.

The next things I want to discuss, which Kay also included in her PowerPoint, were references to help you complete your form 1023. Probably the best place to go is the form 1023 instructions, which were also attached to the e-mail that Miss Ross sent today and yesterday. Those instructions are pretty detailed and will help you with the form's completion. Another good place to go, which you can find on the IRS Web site, which is [www.irs.gov](http://www.irs.gov), is publication 557. There's a lot of good information in that publication also. The one thing I would caution you about is that when that publication was written there was a prior revision of form 1023. So, all of the

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things in that publication might not match up exactly with the questions in the 1023, but the overall information is still accurate.

There are several areas on the Web site [www.irs.gov](http://www.irs.gov) that give good information for exempt organizations. What you would want to do, when you get to the Web site, is go to the charities and nonprofits tab. There is one link entitled, "where's my exemption application", that explains in a little more detail about the process that your application goes through once we receive it. There's another link called, "life cycle of a public charity" that goes into greater detail about your advanced ruling period and what you are required to do after you receive exemption. So that's also very helpful once you receive exemption. And there's another link that is named, "application for recognition of exemption," that gives you several other nice references to use as you're completing the application.

Finally, if you've read all the resources that we've given you today and you still have a specific question about a portion of the application, we do have a toll-free customer service line that is specifically for exempt organizations. That number is 877 829-5500. So you can call that number and talk to a live person to ask them questions.

And the last thing I want to discuss briefly, and Kay also already touched on this, is the final requirement. If your organization receives more than \$25,000 annually, then after you receive exemption, you are required to file form 990 or 990Z. There is the new requirement for organizations that receive less than \$25,000 annually to file an electronic form 990N, also known as the e-postcard. That form has to be filed electronically. Unfortunately, there is no paper copy of that. So if you are a very small organization with less than \$25,000 annually, you will have to go online to file form 990. We've received several questions asking what if an organization doesn't have a computer or access to the Internet; we do realize that can be a problem for some organizations. And if that's the case, you can usually go the library or somewhere like a public building that has Internet access and file that form from there. As Kay also mentioned, that form

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has to be filed by the 15<sup>th</sup> day of the fifth month after your fiscal year ends. So, if your fiscal year ends on December 31<sup>st</sup>, you're required to file the form by May 15<sup>th</sup>.

That is the end of my presentation. I hope I have been helpful. I will stay on the line to answer any questions that anyone has for me.

Operator: Ladies and gentlemen, your question-and-answer session will be conducted electronically. If you would like to ask a question, please press star one on your telephone key pad. Once again, that is star one if you would like to ask a question. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. And we'll pause for just a moment.

We'll take our first question from Valenti Gumms from LA Neighborhood Networks.

Valenti Gumms: Yes, can you explain fiscal sponsorship again?

Kay Sohl: OK. The concept of fiscal sponsorship is that an organization that already has 501(c)(3) status, it's already tax exempt, may determine that the purposes that your organization has been formed to fulfill, operating a computer center, falls within the scope of their purposes. It fits within what they were formed to do. If the board of directors makes that determination that their organization is capable of maintaining the accounting and oversight that would be necessary to be a fiscal sponsor, they can enter into a written agreement with your group. The nature of that agreement is that they are going to give you permission to request contributions, possibly from a foundation or from an individual donor. When that donor or foundation asks whether you have tax-exempt status, you will explain that the contribution will actually be made to this fiscal sponsor organization that already has tax-exempt status.

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When that organization receives the contribution, they will have agreed to make a record that that contribution is not for their general purposes, but is for the specific purposes of your computer center. They have to be capable of doing the accounting to actually track that money coming in. There are several different ways that they can work with you to either directly pay the expenses of your organization. Or, in some cases, they may be willing to advance some funds to you and require that you account for your use of those funds. In that way, whether they made the application to the foundation, or they are the organization receiving the contribution, they take responsibility for seeing that the contribution is used properly.

But this can work really well for a start-up organization, because often when you're just starting up, you don't really have an accounting system of your own set up, your board of directors might just be learning how to be a board, you might not have a track record that would give you credibility with foundations. So, in working in this fiscal sponsorship relationship, sometimes it can be an opportunity for your new organization to really learn how to operate properly.

Now, there are some great resources that describe how to handle this fiscal sponsorship correctly. One of them is a publication by an attorney, Greg Kaplan, and the name of the publication is "Fiscal Sponsorship: 6 Ways to do it Right". I have to say that, unfortunately, there are often mistakes made in conducting fiscal sponsorship. Those mistakes can be a big problem to the organization that is already tax-exempt, because there are some rules that they have to follow. But fiscal sponsorship can be done very well to help a new organization get started and learn the ropes before they get involved in this [501 (c)(3)] application process.

Valenti Gumms: Thank you.

Operator: Thank you. We'll take our next question from Melinda Comeau from the Housing Authority of Ventura, California.

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Melinda Comeau: Hi, I was wondering if both presenters could repeat their contact information.

Kay Sohl: OK. The easiest way to find our organization is on the Web and our Web address is [www.TACS.org](http://www.TACS.org). And actually, I mention that Web site because we have a

Kay Sohl: number of resources on applying for tax-exempt status on our Web site and some good resources on fiscal sponsorship. To reach me directly, use my initials, the letter K and the letter S, at TACS.org.

Melinda Comeau: Thank you.

Daniel Dragoo: OK. My name is Daniel Dragoo. The first number I'm going to give you is the phone number for our customer service line.

Melinda Comeau: OK.

Daniel Dragoo: I'm hesitant to give my direct line to my office ...

Melinda Comeau: That's OK.

Daniel Dragoo: I apologize for that, but I do work cases and so if I give my number out to the public, I'm really not authorized to answer questions. So, the customer service line is 877 829-5500. My address is Internal Revenue Service, Exempt Organizations, P.O. Box 2508 Cincinnati, Ohio, 45201, Attention Daniel Dragoo, and that's D-R-A-G-O-O, room 4522. So, if anyone has an in-depth question and wants to send me mail, that is fine. I can't promise that I would be the one responding to it, but if you do that someone will contact you.

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Melinda Comeau: Thank you very much.

Daniel Dragoo: You're welcome.

Marcia Ross: Thanks, Daniel. And just so everyone will know, we will gather their contact information and the resources that they gave during the call and we will send that information to everyone who attended this conference call. We're ready for the next question.

Operator: Thank you. And as a reminder, ladies and gentlemen, press star one if you would like to ask a question. We'll go to John Bowman with our next question from Community Career Center.

John Bowman: Yes, hi. We're actually part of Metro Schools. So we'd like to set up as a side company that we could apply through to be a 501(c)(3). Is that allowable?

Kay Sohl: Well, it's pretty common to see a public school system or another governmental entity work collaboratively with a separate nonprofit corporation that applies for and obtains tax-exempt status. Often those are established as a school district foundation or a friend of whatever the public entity is. So that structure works quite well. It does have to be a separate legal entity, and of course, the big difference is that is going to be organized under state law for nonprofit corporations, as opposed to public entity law. But the issues, and I'll be interested in what Daniel says, that we've seen in that structure often have to do with getting the public entity to understand that the nonprofit corporation is indeed a separate legal entity with its own governing board that has to make its own decision. So, it cannot be totally controlled by a public entity board.

Daniel Dragoo: Right. And that is correct, everything Kay said is correct. You can definitely spin off an organization from a public school or governmental entity. But it is true that you would need to

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form as a corporation, board association, or some legal entity separate from that public school. You would definitely need to get your own employer identification number and have your own separate governing body. But it is definitely fine to do that as long as you are exclusively chartable, educational, religious, and so on.

John Bowman: Thank you.

Operator: Thank you. And as a reminder, ladies and gentlemen, press star one if you would like to ask a question for our speakers. We'll pause for another moment.

I'll take our next question from Carol Wilhelm from Buffalo Municipal Housing.

Carol Wilhelm: I think I might be a little confused, but how do you foresee housing authorities working within the framework? Housing authorities that receive Public Housing Neighborhood Network funds originally.

Kay Sohl: Well, I'll start and then I think others may want to join in. This is Kay. I think my assumption has been that in many cases the housing authority will assist with the formation of a new nonprofit corporation and quite likely assist that new corporation to apply for tax-exempt status. I think that in some cases, the housing authority may be willing to provide some services to that nonprofit corporation, for example, accounting services, or human resources services, or facilities management services.

The housing authority would be free to decide whether to provide a substantial amount of assistance to the new corporation, or if the new corporation should be totally on its own. But since these computer centers are generally located in housing authority facilities, I've been going with the assumption that there would be some continuing relationship. And because they would

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be separate entities, you would also have to figure out how you would handle a lease agreement between the housing authority and the nonprofit corporation in terms of the user of the space. There would need to be some agreements between the two organizations on how they will work together. It's that kind of agreement that you'll see a lot of questions on the application for tax-exempt status addressing. And so, it's probably going to be helpful to go through that before you try to complete the application.

Carol Wilhelm: Thank you.

Sharon Glenn: I'd like to add something. This is Sharon Glenn. One of the tips that your peer provided, Mindy Weldon, is what everyone should do. Before you decide to go through the process of becoming a 501(c)(3), you must obtain permission from the Executive Director of the housing authority who has the authority to make the decision to create a nonprofit. You have to get permission first before proceeding. Explain to them that you wish to pursue this designation, do your research, prepare a packet of materials that you can present to them showing the advantages of becoming 501(c)(3). Discuss how this is helpful for the center, as well as for the public housing authority. Our Neighborhood Networks staff has a PowerPoint presentation, the state filing fees, and some steps on how to file, so that when you are presenting this information to your decision maker, they will have this in front of them. We've sent this to several people and it has worked for them.

Also, as you're getting that permission from the decision maker, you also want to find out who else is involved that can help you through the process. But the main thing is that before you pursue this designation, you must get the permission from the housing authority.

Kay Sohl: And I would just add in there, that one of the many reasons for that permission is for your center to keep operating, it's going to need to continue to have access to the space. You're going

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to reach an agreement with the housing authority about the computer equipment that has been purchased by the housing authority for the computer center. So, you're going to need to have a good working relationship to handle the physical arrangements as well as the general relationship.

Marcia Ross: OK. I think we're ready for another question

Operator: We have no further questions at this time. I'll turn the call back to our speakers for any additional or closing remarks.

Marcia Ross: I think I have a question, and I don't know if this is directed to Kay or to Daniel. Is there a way that a foundation can verify that an organization is a 501(c)(3) tax exempt organization and that it's simply not claiming to have that status?

Daniel Dragoo: Yes, and that's one of the definite advantages to receiving exemption under 501(c)(3). Most donors want to verify before they give a contribution that you are actually exempt. Once you become exempt, the name of your organization is placed on publication 78. You can find that publication online at [www.irs.gov](http://www.irs.gov). It lists all 501(c)(3) organizations.

Marcia Ross: OK.

Kay Sohl: And I would add that often in foundation applications, they are still asking for a photocopy of your tax-exempt determination letter from the IRS. Many of those foundations unfortunately do not send you to the IRS Web site but to the (Guidestar) Web site, which is a nonprofit Web site. There is a certain delay factor in information moving from the IRS to (Guidestar). So, if you were

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contacted by a foundation saying they can't find you on (Guidestar), you would want to send them back the IRS publication 78.

Daniel Dragoo: Right.

Marcia Ross: Thank you. Any more questions, Marjorie?

Operator: We have no questions.

Marcia Ross: OK. Well, we're going to start wrapping things up. Sharon Glenn is going to share a few closing remarks with you.

Sharon Glenn: Good afternoon, everyone. I would like to, first of all, thank you all for participating on the call this afternoon. I think it was a very good call and a very profitable call for our Neighborhood Networks centers. This is something that we've been trying to do for quite some time, to present to you other ways in which you can diversify your funding, being that the Neighborhood Networks funding for public housing authorities has not been renewed by Congress. We are here to help you to find other ways in which to diversify and locate the funding you need to sustain your operations. And hopefully, by becoming 501(c)(3)-designated, this will help you reach out to more foundations and organizations that you couldn't have in the past. .

So, we'd like to thank you very much for being a part of this call today. And as Marcia stated, we will be sending you some of the resource information that both Daniel and Kay presented today. We'd like to thank our speakers for being a part of this call. They provided some really good information that we'll be using for some time to come.

Also, I'd like to present TARGET to you, if you don't already have it or haven't gone on to the Neighborhood Networks Web site to retrieve it. TARGET is the Technical Assistance

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Resource Guides and Educational Toolkit. It's located online at the Neighborhood Networks Web site; you can contact us and we'll show you how to get to that resource. That resource provides a sample of what articles of incorporation should look like, what the bylaws should look like, and even what your mission statement should say when you are applying for the 501(c)(3) designation.

Second, I'd like to announce our San Francisco (RTAW) Regional Technical Assistance Workshop that's coming up in July. It's going to be July 9<sup>th</sup> through the 11<sup>th</sup>. Preceding the workshop is a two-day grantwriting session. The Public Housing Neighborhood Networks will have a grantwriting boot camp, will have two days of information that will help you to write grants or get your grant applications in tip top shape.

Third, I'd like to announce Neighborhood Networks Week, which comes up in August. It's a celebration of Neighborhood Networks. This year the celebration is in conjunction with National Night Out, which will be for the full week of August 4<sup>th</sup> through the 9<sup>th</sup>. So, we invite you to contact us and tell us what activities you will have locally, and give us some ideas for a national opening and closing ceremony that is inclusive of our Public Housing Neighborhood Networks centers.

So, I'd like to thank you, once again, for being a part of our call and, as always, we are available to provide technical assistance to you. Our number is 888 312-2743. Thank you.

Marcia Ross: Thank you.

Kay Sohl: Thank you.

Operator: Thank you, and ladies and gentlemen; this concludes today's conference call. We appreciate your participation and have a wonderful day.

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