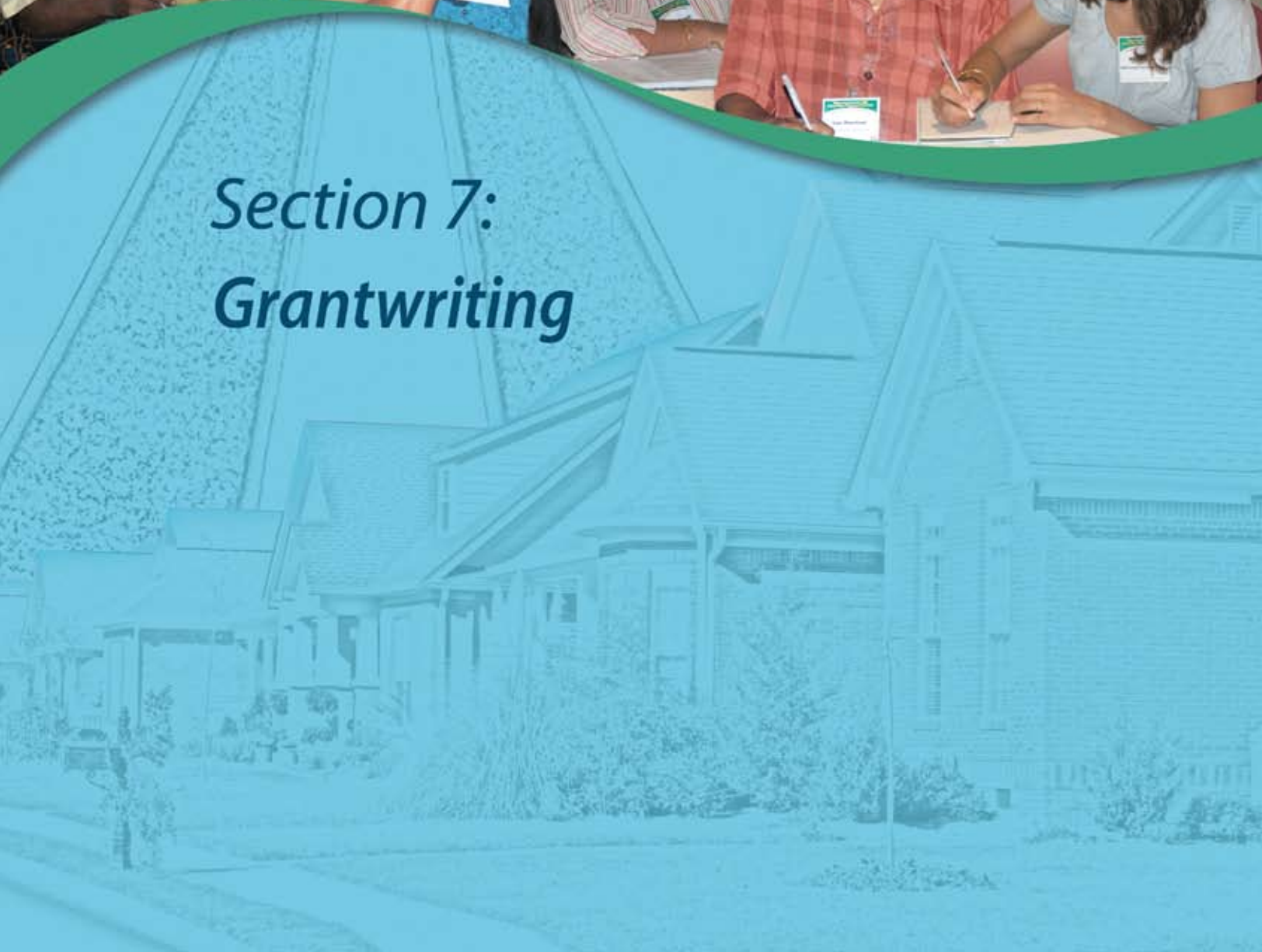




Section 7: **Grantwriting**



Highlights of Section 7: Grantwriting

<input type="checkbox"/> Five Phases of Writing a Grant	141
<input type="checkbox"/> Phase I: Develop a Program Plan	141
<input type="checkbox"/> Phase II: Research Funders and Target Grants	145
<input type="checkbox"/> Phase III: Build Relationships with Funders	146
<input type="checkbox"/> Phase IV: Write and Submit the Grant	146
<input type="checkbox"/> Phase V: Followup	150
<input type="checkbox"/> Importance of 501(c)(3) Status	151
<input type="checkbox"/> Benefits of Obtaining 501(c)(3) Status	151
<input type="checkbox"/> Drawbacks to 501(c)(3) Status	151
<input type="checkbox"/> Responsibilities of 501(c)(3) Status	153
<input type="checkbox"/> Applying for 501(c)(3) Status	155
<input type="checkbox"/> Maintaining Nonprofit Status	156
<input type="checkbox"/> Dissolving a 501(c)(3) Organization	158
<input type="checkbox"/> Online Resources	159

Grantwriting

Establishing and sustaining a Neighborhood Networks center takes resources. Each year, Neighborhood Networks center staff spend hundreds of hours securing these resources. One way center staff acquire resources, such as financial contributions, in-kind donations, and volunteer support, is by applying for grants.

But, as more and more funding organizations and corporations tighten their budgets, competing for grant money and resources becomes more challenging. To successfully capture these sought-after resources, center staff must possess solid grantwriting skills, enabling them to submit grants that make organizations and corporations want to fund their programs.

This section of *TARGET* explains the grantwriting process and offers tips for writing winning grants. The information contained in this section was adapted from a variety of sources, including *Winning Grants: Step by Step* by Mim Carlson.

Five Phases of Writing a Grant

The grantwriting process can be organized into five phases. While writing and producing the grant is certainly the most visible phase, it may not necessarily be the most labor-intensive if center staff spend adequate time planning and doing some legwork.

Phase I: Develop a Program Plan

When it comes to successful grantwriting, devising a plan is critical. The plan discussed here is not a plan for writing the grant, although that may be useful when the time comes to do so. The plan described below is a program plan that outlines the who, what, where, when, how, and why of the program for which funding is being sought. In the end, developing a comprehensive program plan prior to writing

the grant helps simplify the actual writing of the grant because many of the components of the program plan mirror the components of a typical grant proposal.

A thorough program plan describes:

- What the center needs the money to support.
- Why the center needs the money.
- What the money will help the center accomplish.
- Why it is important to accomplish the objective.
- Who will benefit from the program, including not only residents, but the greater community.
- How the center will implement and sustain the program.
- How the center will evaluate the program.
- How much it will cost to operate the program.
- Other contributors, in-kind or financial, to the program.

Program vs. Operational Expenses Funding

Generally speaking, grantmakers prefer to fund specific programs, rather than support the overall operation of a center.

The following components comprise a comprehensive program plan, and form the foundation of a grant proposal.

Need Statement

This statement describes a social need affecting a target audience in a certain place and time. The need statement answers the question: What is the need to be addressed?

The need statement is a critical component of a program plan and grant proposal because its purpose is to make a strong case as to why a program should be funded. A need statement should encourage funders to help, and make them believe that funding the program will have a direct and positive impact on the target audience. If the need statement does not achieve this, grant applicants may not secure funder buy-in, which will most likely result in the proposal being rejected.

Writing a Strong Need Statement

A strong need statement directly supports a center's mission and purpose. For example, a need statement for a grant prepared by Neighborhood Networks center staff might demonstrate the need for job training programs that will help residents achieve greater self-sufficiency. To demonstrate this need, the need statement might cite relevant statistics, such as recent statistics regarding layoffs and rising unemployment rates.

A need statement should stress how the program will meet a vital need in the community that no other organization is filling or that is not being adequately met by existing organizations. It should also present a need that can be fulfilled with the center's staff, skills, and capabilities. For example, a center's need statement would most likely not cite statewide unemployment statistics for a proposal that seeks funding for a job-training program in the immediate community. This is because the center's program would not be striving to change statewide unemployment statistics with a community-based program. The statistics referenced in a need statement should be those that demonstrate where the center can make an impact by offering the proposed program. Finally, a need statement should not focus on how the center will benefit from the program, but rather how the center will help others if the program is funded.

Sample need statements are available for review on the Web site of Non-Profit Guides (www.npguides.org). The site offers a variety of free, Web-based grantwriting tools.

Tips for Writing a Need Statement

- Use a funnel approach. Explain the generalized problem as it occurs in the community. Next, identify the conditions that make this a problem. Then, cite existing resources that address this problem. Finally, identify gaps in those resources.
- Use statistics to emphasize the need.
- Cite experts or research that confirm the need.
- Add a human touch to the proposal by using vignettes from individuals who will benefit from the program.
- Focus on the geographic region the center can effectively serve.
- Emphasize the fact that funding is needed now.

Goals and Objectives

Once the need statement has been written, the next step is to establish program goals and objectives. Many times, people use the words "goals" and "objectives" interchangeably, but they are quite different. Goals are broad statements that convey a general intention. Goals are also intangible, abstract, and cannot be validated as is. Conversely, objectives are narrowly defined, precise, tangible, concrete, and can be validated. Basically, goals and objectives describe the anticipated results of the program and help funders visualize how the situation will be different when the program is implemented.

An example of a goal and objectives:

Goal:

Provide a full curriculum of job training classes that help residents acquire the skills necessary to compete in today's job market.

Objectives:

- Increase the number of computer skills classes, including a Microsoft Certification class, offered at the center from three to six classes during 2010-2011.
- Expand the job training programs to include a monthly resume writing workshop and mock interview session during 2010-2011.
- Expand job placement services to include follow-up services that enable center staff to monitor the progress and success of residents who have recently obtained a job during 2010-2011.

Methods

The methods section of the program clearly describes the actions the center will take to meet the demonstrated need and accomplish the proposed goals and objectives. In addition to describing the activities, the plan should provide justification as to why the method was selected. The method section should also describe the resources, such as staff, volunteers, donations, and in-kind services the center has in place to support the program. This section should also identify the target audiences and include a reasonable timeline.

Evaluation

When awarding funds and resources, grantmakers want to know that their contributions will be well spent and achieve results. Because of this, it is critical to determine how the program for which funding is being requested will be evaluated. Funders want to know how a center defines and measures the success of a program.

The evaluation section of the program plan not only demonstrates to funders that a center is dedicated to offering quality programs, it also helps a center streamline programs and make the most of programming resources, saving money in the future. A thoughtful program evaluation also helps the staff to better serve residents and learn more about what residents need and want.

Methods Section

A complete methods section will:

- Include tactics that achieve the objectives and fulfill the need.
- Explain why a tactic was chosen. Research findings, expert advice, and experience should be used to support the tactic choice.
- Describe the target audience that will be served by the program.
- Identify where the program will be conducted.
- Identify the staff and equipment to be used to implement the program.
- Include a timeline.
- Present the funder with a clear picture of how the program will be implemented and demonstrate that careful planning went in to the program.

Section 11 of this publication, *Evaluating Neighborhood Networks Center Programs*, provides a detailed description of the program evaluation process that will help center staff determine the most effective and efficient way to assess center programs.

Program Sustainability

Funders prefer to fund programs that will be around for the long term. They do not want to provide support to a program that will not be able to continue or complete its objectives after the funds they have generously provided are spent. Because of this, demonstrating how a program will secure future funding so it can be sustained is critical.

During this phase of program planning, center staff should identify viable sources of future funding and support for which they can apply and use to continue the program. It is not enough to simply state, "additional grants will be sought to continue the program." A program plan should identify specific,

strong grant opportunities for which the center qualifies and stands a good chance of being awarded. The funding priorities of potential grantmakers must be compatible with the objectives of the proposed center program.

Potential sources of future funding include:

- **Continuation grants from foundations, organizations, and corporations.** There are thousands of grantmaking foundations, organizations, and corporations. The Foundation Center (www.fdncenter.org) provides contact information for hundreds of foundations and direct links to their Web sites. Another valuable, free source of information on grantmaking entities is the Council on Foundations Web site (www.cof.org). Center staff can also create a list of major businesses and corporations in their community and then determine if the company has a corporate-giving program. The Neighborhood Networks Web site (www.NeighborhoodNetworks.org) also features regular funding opportunities. These funding opportunities have been pre-screened to ensure that grantmakers' funding priorities match the Neighborhood Networks mission. Grants.gov can help center staff identify and apply for Federal Government grants. Grants.gov is a central storehouse for information on over 1,000 grant programs and provides access to approximately \$500 billion in annual awards.
- Some funders do not like to feel as though they are shouldering the entire financial burden of a project. Many grant applications specifically ask for additional sources of funding for the project. Be prepared to provide information regarding additional resources for the project, including in-kind donations, sponsorships, direct financial contributions, or partnership agreements. These assure the funder of the viability of the project both at the time they provide funding and after the grant runs out.
- **Annual campaigns.** A center may elect to host an event, perhaps in conjunction with Neighborhood Networks Week, at which funding and resources will be requested. To generate resources, centers

may also operate a raffle with donated door prizes to generate revenue at the event.

- **Fees for service.** Charging a reasonable user fee is another way to generate additional funding. Fees can include membership fees, class fees, and public access fees. However, no one should be denied access because they have not made or cannot make a contribution. Before charging a fee, centers should be aware that some state/local governments might have special licensing requirements for organizations charging public access fees.
- **Sales of items or services.** Many Neighborhood Networks centers operate microbusinesses that generate revenue to fund and sustain programs. These businesses include publication services and specialty food item production and sales.

Budget

Every Neighborhood Networks center operates on a budget. When planning a new or expanding an existing program, it is important to determine the cost to operate the program, and whether it is feasible for the center to offer the program.

When creating a budget for a program, center staff should carefully review the methods section of the program plan and ensure that the costs of all labor and associated expenses for each tactic are reflected in the budget. Grant reviewers will do this, so it is important that the budget match up with the tactics. Reviewers will also scrutinize the budget to determine if the program and objectives can be accomplished with the amount proposed, if costs are reasonable for the market, and if the applicant provided sufficient budget detail and explanation.

Section 10 of this publication, *Creating a Budget*, provides a detailed summary of how to create a budget.

Once the program plan is complete, the center staff will have a clear picture of how the proposed program will be implemented by the center. A program plan not only enables center staff to identify the what, why, who, when, where, and how of the program, it also allows center staff to move forward

and identify with greater precision which funders are most likely support the program.

Phase II: Research Funders and Target Grants

Perhaps one of the most important phases in the grantwriting process is identifying potential funders. Competition for grant money is fierce, so it is imperative that the objectives of a grantseeker's program match up and complement the funding priorities of grantmakers. A center may submit the most compelling grant proposal that offers a variety of statistics and facts demonstrating the need for the program, but if the program does not fall within the funding priorities of the funder, the grant proposal will most likely be declined. It is crucial to research funding organizations prior to submitting a grant proposal.

When researching potential funders, center staff should:

- Identify all subject areas the program to be funded addresses. For example, if a center is seeking funding for a General Educational Development (GED) exam preparation program, funding priorities for

Applying for Corporate-Sponsored Foundations and Corporate Charitable Giving Programs

Many major corporations have established their own foundations that operate separately from the company. Typically, these foundations award grants to nonprofit organizations in the communities in which they operate and/or their employees live. Often, corporate foundations' grant guidelines also stipulate that employees must be actively involved in the program for which funding is being sought. Because of this, center staff should consider reaching out to local businesses to establish a relationship that paves the way for funding.

potential funders may include workforce development, adult education, and self-sufficiency.

- Identify the geographic focus of a funding organization. A funding organization's giving priorities may match a center's program objectives perfectly, but if the funder only awards grants in a specific area and the center is not located in that area, the center's request for funding will most likely be declined.
- Visit the Web site or conduct research to learn about the funder. Center staff may also want to request an annual report to gain more insight on the funding priorities and the types of programs that were previously funded by the grantmaker. Accordingly, center staff will be able to better determine the likelihood of their grant being funded. Center staff will also gain a better understanding of the organization, and may be able to use this information to strengthen the grant.
- Determine the submission deadline for a grant.
- Review carefully the grant guidelines and eligibility requirements of the funding organization. Many funders require grantseekers to possess Internal Revenue Service (IRS) 501(c)(3) status. (More information on obtaining 501(c)(3) status is provided later in this section.)
- Review and follow the instructions for applying for funding.
- Discuss potential funders with the center's board of directors and volunteers to determine if there is a connection to the funding organization that could prove useful.
- Contact the funder with any questions. It is perfectly acceptable for centers to contact funding organizations to discuss funding priorities and the center program for which funding is being sought. Doing so might open the lines of communication and help to establish a relationship.
- Determine if the center's program is a good fit with the funding organization's priorities. If it is not, move on.

Phase III: Build Relationships with Funders

Once center staff have identified a solid list of potential funders, the next step is to begin building a relationship with the funder. Opening the lines of communication with the funder enables center staff to obtain information that will help to create a strong proposal, as well as promote and demonstrate the benefits of the center's programs.

One way to begin building a relationship is to contact the funder to discuss the organization's funding priorities and the center's proposal. Center staff should be prepared to communicate the most important information first, as the funder may only have a short amount of time. Center staff should also listen carefully to what the funder is telling them, as this will help strengthen the proposal.

Another way to establish a relationship is to request a meeting with the funder. This is not done all that frequently, as representatives from funding organizations tend to be busy. In addition, funders are sometimes hesitant to meet with grantseekers for fear that they may increase expectations about receiving funding. If center staff do have an opportunity to meet with a funder, it is important to demonstrate how the program fits in with the funder's giving priorities, emphasize the credibility and impact of the center's programs, describe the program and the need for it, highlight the proposed outcomes, and explain how success will be measured.

Many funders require a letter of intent as a first submission in the grant process. Typically, a letter of intent includes:

- A center's mission and related programs.
- The need the center will meet with the program.
- The outcome the center expects to achieve with the program.
- The methods the center will use to achieve these outcomes.

- The fit between the center program's objectives and the funder giving priorities.
- Specific information required by the individual funder. (Note: Be mindful of page limits for letters of intent and grant applications. Funders receive many grant applications, and may disqualify an application that exceeds the stated page limit.)

Once center staff have established contact with a funder, it is critical to maintain regular communication and build the relationship. The relationship center staff develop with funders should begin before the proposal is submitted, and continue long after the grant is awarded. Funders appreciate hearing about the successes and results that are being achieved by a program they funded. They may also be interested in other fundable programs the center is offering or considering.

Phase IV: Write and Submit the Grant

Now that the program plan has been developed, potential funders have been identified, and the lines of communication with potential funders have been opened, the next step is to write the grant proposal. The following information describes the writing process for a long proposal (see text box), which typically includes: a cover letter; summary of the proposal; need statement; goals and objectives; methods; evaluation; project sustainability; organization background; budget; and appendices. Since many of these components were covered earlier in this section in *Phase I: Develop a Program Plan*, the following text provides general writing tips and guidance for writing the remaining components of the typical long proposal. These include the cover letter, proposal summary, and center background.

Before You Begin Writing

Most rejected proposals are declined because they did not meet the grantmaker's funding criteria. Grant proposals are usually written in response to a Request for Proposal (RFP) or grantmaking guidelines. The RFP and grantmaking guidelines provide information on the purpose of the grant and

Types of Proposals

Generally speaking, there are three types of proposals:

- **Letter of Intent.** Funders typically ask organizations to submit a letter of intent prior to requesting a full-blown proposal. The letter of intent is a two- or three-page summary that provides a brief description of the project and demonstrates how the proposed project is compatible with the funder's priorities. The letter of intent also describes the need for the project and outlines the plan to meet this need.
- **Letter Proposal.** Most often requested by corporations, the letter proposal is a three- or four-page description of the program plan, the organization requesting the funds, and the actual request. Unlike the letter of intent, which is more of a fact-finding document, the letter proposal includes a request for funds.
- **Long Proposal.** Foundations and government funders most frequently request the long proposal. Ranging in length from five to 25 pages, the long proposal typically includes: a cover letter; proposal summary; need statement; goals and objectives; methods; evaluation; project sustainability; center background; budget; and appendices. Many of these components were part of the program plan. Therefore, center staff need only to rework the program plan text and write the remaining sections (the cover letter, proposal summary, and organization background) to create the proposal.

requirements for the proposal. These requirements describe how the grant proposal is to be organized, submitted, and evaluated. Center staff should carefully read these requirements and follow them.

Collecting and compiling information for a grant takes a team effort. However, when the time comes

to write the grant, it is best to designate one person to serve as the writer to give the proposal one "voice." The individual must possess strong writing skills, as well as a thorough understanding of the program, including why the program is important, and why the grantseeker is the best qualified to provide the program. Prior to writing the proposal, identify who will serve as the grantwriter.

Writing the Proposal

The following are tips for writing an effective grant proposal:

- Ensure the grant is organized in an easy-to-follow and logical manner.
- Make a compelling case as to why the center deserves funding by using emotional appeal that is supported by statistical and factual information.
- Make the proposal easy for anyone to read and understand why the center deserves funding. Avoid jargon.
- Keep it concise. Reviewers will appreciate a complete, yet concise and to-the-point, grant proposal.
- Use action words. Proposals are similar to resumes. Funders are attracted to action words that describe a center's activities.
- Customize the grant to comply with the funder's request. If the funder asks for information in a specific order, organize information in the same order.
- Conduct an internal review prior to submitting the grant. Ask reviewers to evaluate if the grant reads well, makes a compelling case for funding, and complies with the funder's requests.
- Make it attractive. While it is not necessary to engage the services of a graphic artist to design and lay out the proposal, a clean-looking proposal will give the impression of a well-managed center. Break up large blocks of text with charts, tables, bulleted lists, and graphics.
- Proofread, proofread, proofread. One typo can ruin a center's credibility. If reviewers perceive

that the center did not take the time to ensure a quality proposal, how can they be sure that adequate time will be taken to implement a quality program with a realistic budget? Take time to conduct a thorough quality check, and ensure that formatting is consistent and all charts, tables, and appendices are clearly labeled.

Crafting an Effective Cover Letter

All too often, grant applicants do not spend adequate time writing the cover letter. As the first piece of information funders read when reviewing a center's grant application, it is critical that the cover letter set the tone for the entire proposal package.

Be Active and Show Action

When writing grants, use *active* voice rather than *passive*. Sentences that use active verbs give the reader a sense of movement and action. Consider the following example:

Active:

The center's computer skills classes increased residents' competitiveness in today's job market.

Passive:

Residents' competitiveness in today's job market was increased by the center's computer skills classes.

Some action words and phrases that strengthen a proposal and demonstrate action include:

achieve	illuminate	refine
assess	illustrate	reflect
assist	implement	resolve
compose	increase	restore
connect	inspire	shape
demonstrate	lead	specify
elevate	motivate	strategize
engage	move	streamline
establish	produce	synthesize
excel	promote	translate
exemplify	pursue	validate
focus		

The cover letter should be no longer than one page. It should describe the center making the request and state the specific financial request being made. The cover letter should also summarize the proposal's highlights, and conclude with an expression of thanks to the funder for taking the time to review and consider the request. While the cover letter may be signed by the center director or president of the center's board of directors, it should include the contact information for the center staff member who will answer questions regarding the proposal. The cover letter should be addressed directly to the individual who is identified as the funder contact.

Sample cover letters are available for review on the Web site of Non-Profit Guides (www.npguides.org). The site offers a variety of free, Web-based grantwriting tools.

Writing the Proposal Summary

Proposals that are more than five pages in length should include a summary. This one-page overview of the proposal typically appears at the beginning of the document, and identifies the applicant, describes the specific purpose of the grant, presents the center's qualifications for carrying out the program, provides an anticipated end result, states the requested amount of funding, and provides a total program budget. When writing the summary, first identify the key points of each section of the proposal. Then, write a summary that highlights these key points.

Creating the Center Background

Often referred to as "boilerplate," the center background section demonstrates to funders that the center has the qualifications and resources to successfully achieve the program objectives. The center background section should also assure funders that the center is fiscally secure, well managed, and a vital and respected community resource.

A typical center background section begins with a brief history of the center. The center's mission should be stated so funders will know why the center exists. The center background should also

Major Components of a Proposal

Typically, the following comprise the major components of a long proposal:

Cover Letter

- Describes the center.
- States specific financial request being made.
- Summarizes the proposal's highlights.
- Expresses appreciation for consideration.
- Includes contact information for center contact who will answer funder's questions.

Proposal Summary

- Appears at the beginning of the document.
- Identifies the applicant.
- Describes the specific purpose of the grant.
- Presents the center's qualifications for carrying out the program.
- Provides an anticipated end result.
- States the requested amount of funding.
- Provides a total program budget.
- Identifies and summarizes the proposal's key points.

Need Statement

- Describes a social need affecting a target audience in a certain place and time.
- Answers the question: What is the need to be addressed?
- Makes a strong case as to why a program should be funded.
- Supports center's purpose and mission.
- Stresses how program fills a vital gap in community that no other organization is filling.
- Motivates funders to support the program.

Goals and Objectives

- Describes what the center hopes to accomplish with a program (goal).
- Describes the specific results to be accomplished (objectives).

Methods

- Describes the actions the center will take to meet the demonstrated need and accomplish the proposed goals and objectives.
- Provides justification as to why the actions were selected.
- Describes the resources, such as staff, volunteers, donations, and in-kind services the center has in

place to support the program.

- Identifies the target audiences.
- Includes a reasonable timeline.

Evaluation

- Explains the plan for assessing the program's accomplishments, strengths, and areas of improvement.

Project Sustainability

- Explains how a program will secure future funding to ensure sustainability.
- Identifies viable sources of future funding and support.
- Center Background
- Demonstrates the center has the qualifications and resources to successfully achieve the program objectives.
- Assures funders that the center is fiscally secure, well managed, and a vital and respected community resource.
- Includes a brief history of the center and the center's mission.
- Summarizes the programs and services offered by the center.
- Includes, if appropriate, testimonials and accomplishments that demonstrate the center's ability to successfully conduct the program should also be included.

Budget

- Describes how the program will be funded.

Appendices

May include:

- The IRS 501(c)(3) nonprofit determination letter.
- A list of the center's board members and their affiliations.
- The overall budget for the latest fiscal year.
- Promotional or informational materials, such as brochures, fact sheets, and newsletters. (Neighborhood Networks Initiative materials can also be submitted to demonstrate that the center is part of a larger, national network.)
- A list of funding sources.
- Resumes for key personnel.
- Letters of support or endorsement.

summarize the programs and services offered by the center. Testimonials and accomplishments that demonstrate the center's ability to successfully conduct the program should also be included.

Compile the Appendices

Appendices are an important part of a proposal, including letter proposals, and often make up the bulk of a proposal. Letters of intent can also include reduced appendices. While most government and foundation funders clearly state what they expect to receive in the appendices, appendices typically include:

- The IRS 501(c)(3) nonprofit determination letter.
- A list of the center's board members and their affiliations.
- The overall budget for the latest fiscal year.
- Promotional or informational materials, such as brochures, fact sheets, and newsletters. (Neighborhood Networks Initiative materials can also be submitted to demonstrate that the center is part of a larger, national network.)
- A list of funding sources.
- Resumes for key personnel.
- Letters of support or endorsement.

Sample proposals are available for review on the Web site of Non-Profit Guides (www.npguides.org). The site offers a variety of free, Web-based grantwriting tools.

Phase V: Followup

The grantwriting process does not end with the submission of the proposal. After the grant proposal has been submitted, center staff should follow up with the funder to determine if the proposal was received and if the funder has any questions or needs additional information. If the funder provides a date for when a funding decision will be made, center staff may want to contact the funder as that date nears to check on the status of the proposal.

If all that hard work results in a grant, take a few moments to acknowledge the grantmaker's support and generosity with a thank you letter. It cannot hurt, and may also begin paving the way for the center to receive continued financial support from the grantmaker.

Useful Resources

Council on Foundations (www.cof.org)

The Council on Foundations is a nonprofit membership association of more than 2,100 grantmaking foundations and corporations. The Council on Foundations' Web site includes links to its members' Web sites.

Foundation Center (<http://foundationcenter.org>)

The Foundation Center is a national nonprofit service organization that maintains a comprehensive database on U.S. grantmakers and their grants; issues a wide variety of print, electronic, and online information resources; conducts and publishes research on trends in foundation growth, giving, and practice; and offers an array of free and affordable educational programs.

Non-Profit Guides (www.npguides.org)

Non-Profit Guides are free, Web-based grantwriting tools. The guides are designed to assist established U.S.-based nonprofits through the grantwriting process and include basic grantwriting tips to guidance on writing inquiry and cover letters and preparing a budget. The Web site also includes sample proposals.

Society for Nonprofit Organizations (www.snpo.org)

The Society for Nonprofit Organizations is a 501(c)(3) nonprofit organization with members throughout the world. Since 1983, the Society has been providing nonprofit staff members, volunteers, and board members with affordable resources and information to work more effectively and efficiently toward accomplishing their mission.

If the proposal is rejected, center staff should not be discouraged. Competition for grant money is substantial. However, center staff should ask for feedback from the funder to identify the proposal's strengths and areas of improvement. Doing so will help center staff improve future proposal packages. Turn the experience into a learning experience that will benefit future proposals.

Importance of 501(c)(3) Status

Many foundations require grant applicants to have IRS 501(c)(3) status, and there are many benefits to becoming a nonprofit organization. Following is a description of the advantages, disadvantages, and process of 501(c)(3) status.

Benefits of Obtaining 501(c)(3) Status

Neighborhood Networks centers that obtain 501(c)(3) status, with the support and approval of the property's owner and manager, will enjoy many benefits, including:

- Exemption from federal income tax.

Proposal Quick Tips

When writing a proposal, remember:

- Absolute adherence to guidelines, brevity, simplicity, and clarity are key elements.
- Present your material in the order stated by the funder.
- For state and federal programs, use the jargon found in the Request For Proposal (RFP).
- For foundations and corporate grant programs, use plain language and define any specialized terminology.
- Include all documents requested in the guidelines.
- Ensure that the budget makes sense. Explain any unique line items or budgetary circumstances.

- Eligibility to receive tax-deductible charitable contributions. Individual and corporate donors are more likely to support organizations with 501(c)(3) status because their donations can be tax deductible. Recognition of exemption under section 501(c)(3) of the Internal Revenue Code (IRC) assures foundations and other grant-making institutions that they are issuing grants or sponsorships to permitted beneficiaries.

In addition, some organizations may be exempt from certain employment taxes, and certain organizations may receive reduced postal rates from the U.S. Postal Service. Centers with an IRS determination of 501(c)(3) status may also be exempt from state income, sales, and property taxes. To qualify for these benefits, most organizations must file an application with, and be recognized by, the IRS.

Drawbacks to 501(c)(3) Status

Although there are many benefits to obtaining 501(c)(3) status, there are some disadvantages. Most of them have to do with the cost involved and the paperwork required. A great deal of time and energy is required to set up accounting systems, record books, and bank accounts; draft bylaws; and file articles of incorporation if a Neighborhood Networks center has not formally organized. There are several other precautions to consider, such as restrictions on supporting or opposing candidates for political office, limits on lobbying activities, and greater scrutiny by government agencies.

If you feel the benefits outweigh the drawbacks, the next step is to begin the process of obtaining 501(c)(3) status. The following information has been excerpted from IRS Publication 4220 and IRS Publication 557.

501(c)(3) Eligibility Requirements

There are three key components for an organization to be exempt from federal income tax under section 501(c)(3) of the IRC. These are:

- A 501(c)(3) organization must be organized as a corporation, trust, or unincorporated association. An organization's organizing documents (articles of incorporation, trust documents, articles of association) must limit its purposes to those described in section 501(c)(3) of the IRC; not expressly permit activities that do not further its exempt purpose(s), i.e., unrelated activities; and permanently dedicate its assets to exempt purposes.
- Because a substantial portion of an organization's activities must further its exempt purpose(s), certain other activities are prohibited or restricted including, but not limited to, the following activities. A 501(c)(3) organization:
 - Must absolutely refrain from participating in the political campaigns of candidates for local, state, or federal office.
 - Must restrict its lobbying activities to an insubstantial part of its total activities.
 - Must ensure that its earnings do not inure to the benefit of any private shareholder or individual.
 - Must not operate for the benefit of private interests, such as those of its founder, the founder's family, its shareholders, or persons controlled by such interests.
 - Must not operate for the primary purpose of conducting a trade or business that is not related to its exempt purpose, such as a school's operation of a factory.
 - May not have purposes or activities that are illegal or violate fundamental public policy.
- To be tax exempt, an organization must have one or more exempt purposes stated in its organizing document. Section 501(c)(3) of the IRC lists the following exempt purposes: charitable, educational, religious, scientific, literary, fostering national or international sports competition, preventing cruelty to children or animals, and testing for public safety.

The most common types of 501(c)(3) organizations are:

- Charitable organizations that conduct activities that:
 - Promote relief of the poor, the distressed, or the underprivileged.
 - Promote the advancement of religion, education, or science.
 - Promote the construction or maintenance of public buildings, monuments, or works.
 - Lessen the burdens of government and neighborhood tensions.
 - Eliminate prejudice and discrimination.
 - Defend human and civil rights secured by law.
 - Combat community deterioration and juvenile delinquency.
- Educational organizations, including:
 - Schools, such as a primary or secondary school, a college, or a professional or trade school.
 - Organizations that conduct public discussion groups, forums, panels, lectures, or similar programs.
 - Organizations that present a course of instruction by means of correspondence or through the use of television or radio.
 - Museums, zoos, planetariums, symphony orchestras, or similar organizations.
 - Nonprofit daycare centers.
 - Youth sports organizations.
- Religious organizations. The term church includes synagogues, temples, mosques, and similar types of organizations. Although the IRC excludes these organizations from the requirement to file an application for exemption, many churches voluntarily file applications for exemption. Such recognition by the IRS assures church leaders, members, and contributors that the church is tax exempt under section 501(c)(3) of the IRC and qualifies for related tax benefits. Other religious

organizations that do not carry out the functions of a church, such as mission organizations, speakers' organizations, nondenominational ministries, ecumenical organizations, or faith-based social agencies, may qualify for exemption. These organizations must apply for exemption from the IRS. See Publication 1828, *Tax Guide for Churches and Religious Organizations*, for more details.

Public Charities and Private Foundations

Every organization that qualifies for tax-exempt status under section 501(c)(3) of the IRC is further classified as either a *public charity* or a *private foundation*. Under section 508 of the IRC, every organization is automatically classified as a private foundation unless it meets one of the exceptions listed in section 509(a).

For some organizations, the primary distinction between a classification as a public charity or a private foundation is the organization's source of financial support. Generally, a public charity has a broad base of support, while a private foundation has very limited sources of support. This classification is important because different tax rules apply to the operations of each. Deductibility of contributions to a private foundation is more limited than deductibility of contributions to a public charity. See Publication 526, *Charitable Contributions*, for more information on deductibility of contributions. In addition, private foundations are subject to excise taxes that are not imposed on public charities. For more information about the special tax rules that apply to private foundations, see Publication 4221-PF, *Compliance Guide for 501(c)(3) Private Foundations*; and the Life Cycle of a Private Foundation Web site on www.irs.gov/eo.

Organizations statutorily classified as public charities under section 509(a) of the IRC are:

- Churches.
- Schools.
- Organizations that provide medical or hospital care (including the provision of medical education and in certain cases, medical research).
- Organizations that receive a substantial part of their support in the form of contributions from publicly supported organizations, governmental units, and/or from the general public.
- Organizations that normally receive not more than one-third of their support from gross investment income and more than one-third of their support from contributions, membership fees, and gross receipts from activities related to their exempt functions.
- Organizations that support other public charities.

If the organization requests public charity classification based on receiving support from the public, it must continue to seek significant and diversified public support in later years. A new organization that cannot show that it has received enough public support may request an advance ruling of its status. At the end of its advance ruling period, usually five years, it must file Form 8734, *Support Schedule for Advance Ruling Period*, showing its sources of support. If the Form 8734 indicates sufficient public support, the organization receives a definitive ruling of its public charity status. If the organization does not meet the public support requirements in the future, it could be reclassified as a private foundation. Unless the organization is committed to raising funds from the public, it may be more appropriate to consider alternate statutorily-based public charity classifications. See Publication 557, *Tax-Exempt Status for Your Organization*, for assistance with determining how your organization would be classified.

Responsibilities of 501(c)(3) Status

While conferring benefits on 501(c)(3) organizations, federal tax law also imposes responsibilities on organizations receiving that status.

Recordkeeping

Section 501(c)(3) organizations are required to keep books and records detailing all activities, both financial and nonfinancial. Financial information, particularly information on its sources of support (contributions, grants, sponsorships, and other sources of revenue) is crucial to determining an

organization's private foundation status. See Publication 4221-PC and 4221-PF, Publication 557, and the instructions to Forms 990, 990-EZ, and 990-PF for more information.

Filing Requirements

Organizations with 501(c)(3) status are required to fulfill the following filing requirements:

- **Annual Information Returns.** Organizations recognized as tax exempt under section 501(c)(3) of the IRC may be required to file an annual information return: Form 990, Form 990-EZ, or Form 990-PF along with Schedules A and B. Certain categories of organizations are exempted from filing Form 990 or Form 990-EZ including churches and very small organizations. See the instructions with each of these forms for more information.
- **Annual Electronic Notice.** Small organizations are not required to file Form 990 if their gross receipts are normally \$25,000 or less. Beginning in 2008, however, these organizations must submit an annual electronic notice using Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ*, also known as the e-Postcard. The e-Postcard can only be filed electronically; there is no paper version. For more information about the e-Postcard, go to www.irs.gov.
- **Unrelated Business Income Tax.** In addition to filing Form 990, 990-EZ, or 990-PF, an exempt organization must file Form 990-T if it has \$1,000 or more of gross receipts from an unrelated trade or business during the year. The organization must make quarterly payments of estimated tax on unrelated business income if it expects its tax for the year to be \$500 or more. The organization may use Form 990-W to help calculate the amount of estimated payments required. In general, the tax is imposed on income from a regularly carried-on trade or business that does not further the organization's exempt purposes (other than by providing funds). See Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, and the Form 990-T instructions for more information.

Disclosure Requirements

Organizations with 501(c)(3) must also disclose the following information:

- **Public Inspection of Exemption Applications and Returns.** Section 501(c)(3) organizations must make their application (Form 1023) and the three most recent annual returns (Form 990 or Form 990-EZ) available to the public, upon request and without charge (except for a reasonable charge for copying). The IRS also makes these documents available for public inspection and copying. Private foundation returns (Form 990-PF) filed on or after March 13, 2000, are subject to the same disclosure rules. These documents must be made available at the organization's principal office during regular business hours. Upon request, an organization must furnish copies of the application and the three most recent annual returns. The requests may be made in person or in writing. See Publication 557 for more information. For tax years beginning after August 17, 2006, section 501(c)(3) organizations that file unrelated business income tax returns (Forms 990-T) must make them available for public inspection.
- **Charitable Contributions, Substantiation and Disclosure.** Organizations that are tax exempt under section 501(c)(3) of the IRC must meet certain requirements for documenting charitable contributions. The federal tax law imposes two general disclosure rules: 1) a donor must obtain a *written acknowledgment* from a charity for any single contribution of \$250 or more before the donor can claim a charitable contribution on his/her federal income tax return; 2) a charitable organization must provide a *written disclosure* to a donor who makes a payment in excess of \$75 partly as a contribution and partly for goods and services provided by the organization. See Publication 1771, *Charitable Contributions, Substantiation and Disclosure Requirements*, for more information.

Recordkeeping Requirements

A donor cannot claim a tax deduction for any contribution of cash, a check, or other monetary gift

made on or after January 1, 2007, unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

Applying for 501(c)(3) Status

Organizations that want to apply for 501(c)(3) status should be aware of the forms required, the user fee, the filing deadline, and the processing procedures.

Forms and Information Needed to File

The following forms are required to apply for 501(c)(3) status:

- **Form SS-4.** An employer identification number (EIN) is an organization's account number with the IRS and is required regardless of whether the organization has employees. Apply for an EIN by completing and mailing or faxing Form SS-4, *Application for Employer Identification Number*; calling toll-free (800) 829-4933 between 7 a.m. and 10 p.m. in the organization's local time zone; or clicking on the Employer ID Numbers link at www.irs.gov/businesses/small. Use only one method to apply for an EIN. For more information about EINs, see Publication 1635, *Understanding Your EIN*.
- **Form 1023.** Complete Form 1023, *Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*, and mail to the address indicated in the instructions. The required user fee must accompany Form 1023. The IRS will not process an application until the user fee is paid. Some organizations not required to file Form 1023 include churches; interchurch organizations of local units of a church; conventions or associations of churches; integrated auxiliaries of a church; or any organization (other than a private foundation) normally having annual gross receipts of not more than \$5,000. These organizations are exempt automatically if they meet the requirements of section 501(c)(3).
- **Forms 2848 and 8821.** Attach Form 2848, *Power of Attorney and Declaration of Representative*, if someone other than the principal officer or director will represent you on matters about the application. Attach Form 8821, *Tax Information Authorization*, if you want the IRS to be able to provide information about your application to an employee other than a principal officer or director.
- **Organizing Documents.** Each application for exemption must be accompanied by a conformed copy of an organization's Articles of Incorporation (and the Certificate of Incorporation, if available), Articles of Association, Trust Indenture, Constitution, or other enabling document. If an organization does not have an organizing document, it will not qualify for exempt status. Bylaws are not alone organizing documents. However, if an organization has adopted bylaws, it should include a current copy. The bylaws need not be signed if submitted as an attachment. The articles of organization must limit the organization's purposes to one or more of the following:
 - Religious.
 - Charitable.
 - Scientific.
 - Testing for public safety.
 - Literary.
 - Educational.
 - Fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment).
 - The prevention of cruelty to children or animals.
- **Description of Activities.** An application must include a full description of the proposed activities of an organization.

Sample Forms

Sample forms can be found on the IRS Web site at www.irs.gov.

- **Financial Data.** An application must include financial statements showing receipts, expenditures, and a balance sheet for the current year and the three preceding years (or the number of years an organization was in existence if less than four years).
- **User Fee.** The IRS requires a user fee for applications of tax-exempt status. Payment must accompany a request.

When to File

Most organizations must file Form 1023 by the end of the 15th month after they were created, with a 12-month extension available. An organization that is not a private foundation is not required to file Form 1023 unless its annual gross receipts are normally more than \$5,000. An organization must file Form 1023 within 90 days of the end of the year in which it exceeds this threshold.

An organization that files its application before the deadline will be recognized as tax exempt under section 501(c)(3) of the IRC from the date of its creation.

Help Is Available

Many resources are available to assist with successfully completing the nonprofit application:

- The Neighborhood Networks toll-free information line at (888) 312-2743 has representatives skilled in the 501(c)(3) process who can assist you over the phone.
- Local officials and law students at area universities might be willing to help with filing the required forms. Contact a law school or HUD Neighborhood Networks Coordinator for contacts within your community.
- The Foundation Center is a national nonprofit with affiliates in most major regions. The center provides free advice on the nonprofit process. Visit The Foundation Center's Web site at www.foundationcenter.org.

An organization that files an application after the deadline may be recognized as tax exempt from the date of the application; it may also request exemption retroactive as of the date of creation. See the instructions to Form 1023 for more information.

Determination Letter

The IRS tax specialist reviewing an application may request additional information in writing. If all information received establishes that an organization meets the requirements for exemption, the IRS will issue a determination letter recognizing the organization's exempt status and providing its public charity classification. This is an important document that should be kept in the organization's permanent records.

While an Application Is Pending

While an organization's Form 1023 is waiting for approval from the IRS, the organization may operate as a tax-exempt organization. If an annual exempt organization return is due, the organization must file it, indicating that its application is pending. These returns are subject to public disclosure. If the organization has unrelated business income of more than \$1,000, it must also file a Form 990-T. See Publication 4221-PC or 4221-PF for more information. Although donors have no assurance that contributions are tax-deductible for federal income tax purposes until the application is approved, contributions made while an application is pending would qualify if the application is approved. However, if the application is disallowed, contributions would not qualify. Moreover, the organization would be liable for filing federal income tax returns unless its income is otherwise excluded from federal taxation. The EO website (www.irs.gov/eo) provides information about how to find out about the status of an application for tax-exempt status.

Maintaining Nonprofit Status

Even though a Neighborhood Networks center may have obtained tax-exempt status, it still has responsibilities to the IRS to maintain this status. These requirements are discussed below.

Form 990

Form 990 and Form 990-EZ are used by tax-exempt organizations, non-exempt charitable trusts, and section 527 political organizations to provide the IRS with the information required by section 6033. An organization's completed Form 990, Form 990-EZ, and the Form 990-T of 501(c)(3) organizations is available for public inspection as required by section 6104. Schedule B (Form 990, 990-EZ, or 990-PF), Schedule of Contributors, is open for public inspection for section 527 organizations filing Form 990 or Form 990-EZ. For other organizations that file Form 990 or Form 990-EZ, parts of Schedule B may be open to public inspection.

Some members of the public rely on Form 990, or Form 990-EZ, as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, the return must be complete, accurate, and fully describe the organization's programs and accomplishments. The IRS plans to release a redesigned Form 990 by the end of 2008.

State and Local Requirements

Be sure to learn about state and local requirements for nonprofits. Once a Neighborhood Networks center becomes a federal nonprofit, it is not absolved of local requirements to maintain that status. Every state has laws governing nonprofit organizations. This normally means payment of any annual or periodic state and local fees to maintain the nonprofit

Form 990s Online

Guidestar, an online database of nonprofits, has some 990s accessible on its site at www.guidestar.org.

The IRS has established a toll-free number to handle questions on exempt organizations at (877) 829-5500.

You may also contact your State Attorney General's Office.

status. For more information on these requirements, see the National Association of Secretaries of State's Web site at www.nass.org.

Unrelated Business Income Tax

All nonprofit organizations are subject to a tax on unrelated business income, which is income generated by a business activity that is not related to the direct purpose of the center. This income tax usually does not apply to Neighborhood Networks centers, but it is worthwhile to investigate the possibility. For example, if a center purchases extra supplies for its own use, such as diskettes and printer ink cartridges, and sells these items to residents, this could be considered unrelated income. Even if the money is used to help fund the center, the IRS may consider it unrelated to the general business of the center.

If any income generated by a center can be classified as unrelated income, it might be worthwhile to seek advice from an accountant, another Neighborhood Networks center, or the Neighborhood Networks Information Center to verify.

Operating Exclusively for Charitable or Educational Purposes

Neighborhood Networks centers must meet IRS requirements to maintain their tax-exempt status. The IRS can question a center's mission, bylaws, and proper accounting of income and expenses. Violations can lead to fines, loss of tax-exempt status, or possible dissolution. It is a good management practice for a Neighborhood Networks center's board of directors, staff, and participants to engage

IRS Assistance and Information

The IRS offers help through assistors and with reading material that is accessible online, via mail, by telephone, and at IRS walk-in offices in many areas across the country. IRS forms and publications can be downloaded from the Internet and ordered by telephone.

in reviewing the mission of the organization periodically. This not only makes sure that it remains within the requirements of a 501(c)(3), but it also reiterates the center's goals and aims.

Sound Fiscal Management

Whether a center files the annual Form 990 or has an accountant complete it, it is important that staff and board members understand not only the information that goes into the report, but also the Neighborhood Networks center's financial management system. As nonprofits come under increasing scrutiny, it is important that the finances not be secret. The board is not only becoming more visible, but it is also making decisions on critical issues such as hiring staff (can you really afford it?) and on fundraising strategy (how much can you really make from that silent auction?).

The Neighborhood Networks center's financial policy should contain a clause that all board members demonstrate knowledge of basic financial information: budget, balance sheet, and profit/loss, at a minimum. Not having that basic understanding should not keep someone from being on the board. Consider providing some financial literacy training. Consult with the Neighborhood Networks Information Center for information on free or low-cost training in your area.

Although it is an expense, paying for a periodic program and financial audit helps to convey confidence in the Neighborhood Networks center and to demonstrate to the IRS, the state, and/or the public that the center is being well run. The audit may pinpoint some areas of fiscal or program weakness that the organization may have overlooked. If an audit is an unreasonable financial burden, have a professional accountant periodically review your center's financial statements, at a minimum.

A Final Word About Compliance

Although nonprofits must conform to many rules and regulations, following the law is easier with proper

center management. After the first year, review basic center operation, from equipment to bylaws, including:

- Reevaluate the center's mission statement and bylaws. The IRS can find a center in noncompliance if bylaws are not followed or the center is performing outside its mission statement. Change these two documents, if necessary, to present an accurate assessment of the center's work.
- Review the center's financial documents to ensure proper accounting methods are followed. As mentioned previously, an audit may be a good judge of your financial statements.
- Observe annual filings and maintenance requirements. This means filing Form 990s and paying any state or local fees or taxes.

Although the IRS can be stringent when enforcing rules for nonprofits, a center can remain in compliance by being aware of the laws and keeping the center on course. In doing so, the nonprofit Neighborhood Networks center earns and protects the confidence and trust of its constituents, the public and the government.

Appendix I contains samples of articles of incorporation, bylaws, and mission statements.

Dissolving a 501(c)(3) Organization

When a Neighborhood Networks center that has obtained 501(c)(3) status decides to cease operations, it is necessary to dissolve the organization and end its nonprofit status. To dissolve the organization, a center must first file for dissolution with its state, and then send the approved dissolution documentation to the IRS. Because the requirements for dissolution of a nonprofit organization vary from state to state, centers should contact their state Attorney General's office to determine the steps for dissolution and to ensure that the appropriate documentation is submitted.

Online Resources

All About Nonprofit Charitable Organizations

<http://nonprofit.about.com>

This site offers frequently asked questions that address the most common concerns of groups that are applying for tax-exempt charitable status.

Internet Nonprofit Center

www.nonprofits.org

A comprehensive site sponsored by a nonprofit organization that covers almost everything that either a new or an inexperienced nonprofit organization would need to know.

BoardSource

<http://www.boardsource.org>

The Web site is a must-visit for nonprofit board development.

Internal Revenue Service

www.irs.gov/charities/index.html

Through a user-friendly site, the IRS provides necessary forms, online pamphlets, and up-to-date changes.

Implications for Nonprofits of the Sarbanes-Oxley Act

Signed into law on July 30, 2002, in response to corporate and accounting scandals, the Act may affect nonprofits, especially since several states are proposing to adopt similar regulations. An asterisk indicates those provisions that specifically cover nonprofits.

- Ensure independence and financial competency of board audit committee.
- Do not have auditors performing any nonaudit services, such as bookkeeping, management, or human resource services.
- Change auditors every 5 years.
- Require full disclosure by auditors of all organization's accounting practices.
- Chief financial officers or chief executive officers of nonprofit Neighborhood Networks centers should review Form 990s to ensure and certify accuracy, completeness, and timely filing.
- Nonprofit centers should not provide personal loans to any managers or board members.
- The center must have a conflict of interest policy with disclosure and enforcement.
- The center may want to file its Form 990 electronically to ensure immediate disclosure.
- Adopt a formal process to deal with complaints of misconduct or fraud and to prevent retaliation against whistle-blowers.
- *Treat employee complaints seriously: investigate, correct, or justify noncorrection.
- *Intentional document destruction must be monitored, justified, and carefully administered. This translates into maintaining written and mandatory retention and periodic destruction policies that include electronic files and voice mail.

Adapted from www.boardsource.org and www.independentsector.org

