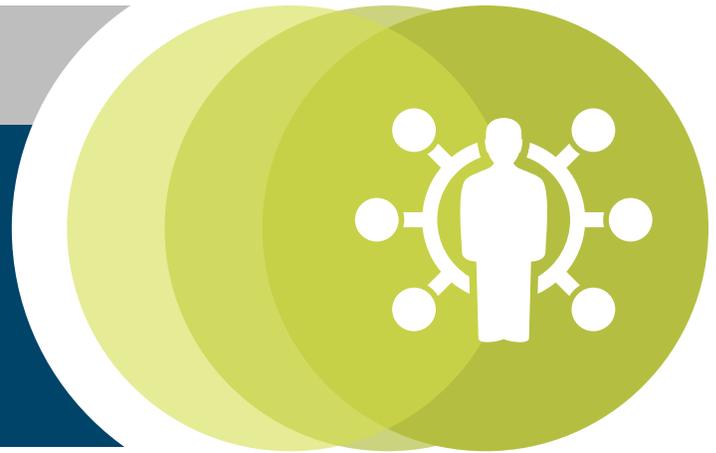


FORMING A 501(c)(3) NONPROFIT ORGANIZATION

and Building Your Organization's Capacity to Apply for Grants



Over the past four decades, hopeful individuals and grassroots organizations have contacted me asking for grant writing assistance to find funding for salaries, rent or build a building, and provide services to the community- or world-at-large. Over this time, I have taken copious notes to help organizations understand what it takes to be the recipient of grant funding.

Here is a sampling of the questions that I ask:

- Does your organization have Internal Revenue Service tax-exempt status under its 501(c)(3) section?
- What is your organization's mission statement?
- What is your organization's vision statement as it relates to securing funding?
- Who is represented on your organization's board of directors? How many members are on the board?
- Are any board members related to one another?
- Are your board members giving monetary contributions to your organization at a level of 100 percent?
- What is your annual "give or get" policy?
- What is your current operating budget? How do you plan to fund this budget?
- Do you have a long-range strategic plan (detailing at least 24 months of planned goals and action steps?

Be forewarned that answering no to any of these questions is a major red flag and a barrier to being "grant-ready."

This paper is intended to guide you on getting started on the right foot and turning your vision into a reality. The following steps are in the order that they are meant to be carried out and will help you build a strong organizational framework so that potential funders will view your board of directors and organization as capable of managing grant awards and continuing to provide

services to your target population(s). Let's get started on your path to sustainability.



Part 1: Forming a 501(c)(3) Nonprofit Organization

YOUR VISION FOR A BETTER COMMUNITY OR WORLD

Suppose your vision is this: **I want to provide services to people or animals in a targeted geographic area.** While this is an admirable and heartwarming vision statement, you must fill in dozens of details (this is not the role of a consultant) to manifest your vision. Here are two excellent resources for learning how to create detailed vision and mission statements that others can embrace: Foundation Center: <http://foundationcenter.org/getstarted/tutorials/establish/statements.html>. Tutorial on getting your nonprofit started on a sustainable path through clear vision and mission statements—should articulate the essence of your organization's beliefs and values and define its place in the world.

**"TURN YOUR
VISION INTO
A REALITY"**

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Psychology Today: <https://www.psychologytoday.com/blog/smartwork/201004/vision-and-mission-whatsthe-difference-and-why-does-it-matter>. Provides templates to help you articulate your organization's vision and mission.

STEP-BY-STEP MUST-DO'S

STEP 1: Form Your Governing Body

Before you start identifying state and federal incorporation forms and hastily filling them out, you must consider who you will ask to be on your board of directors. Your family members and close friends should not be on your board of directors! Rather, your board/governing body should be composed of individuals with the financial means to contribute money on an annual basis to your new and eventually well established nonprofit organization. Being an engaged (active and working) board member means giving of one's time, ideas, and money upfront and on an ongoing basis. Why? Most funders ask the following in their grant applications: **What percent of your board members make financial contributions annually? What professional industries are represented among your board members?**

The New Jersey Nonprofits provides a great resource (<https://www.njnonprofits.org/ThinkingOfForming.pdf>) on what to expect before you begin the process of forming a governing body. The answer to the first question must always be 100 percent. The answer to the second question can vary; however, here are my top three suggested occupational areas/industries for seeking potential board of director members:

1. Banking: Where have you conducted your banking throughout your adult life? Look at this bank first for a potential board member. Speak to a management-level banking professional who can help you open doors to corporate

contributions such as the bank's own grant making program, as well as to other businesses that are doing business with the bank. Suggest other board members to invite to join your governing body team.

Every bank also manages trust funds that are designated for specific types of community services. These monies are not advertised, so having a bank branch manager on your board can open many doors to help your new nonprofit access seed funding early on—once it's formed and tax-exempt. Anyone giving money to your organization will be able to deduct the contribution on his or her income tax return. They simply need a receipt with your organization's name, address, amount contributed, date contributed, and Employer Identification Number (EIN). See more about how to obtain an EIN in Step 2 of this white paper. Check out the Federal Deposit Insurance Corporation, which provides a directory of banks doing business in every state: <https://www2.fdic.gov/idasp/index.asp>.

2. Local Government: Who better knows where there is available grant money at the local, county, or state level of government? Do not approach elected officials (their terms in office will be limited and your board member may move on quickly if not re-elected). Choose someone who manages a community development program or neighborhood services. Also, meet with the mayor or city manager's chief of staff to see if a long-tenured department head can volunteer for your board. The city, county, village, or township may offer them paid time off work during the day if they are engaged in approved community service (attending a board meeting or working on a committee of your newly formed organization). An employee of local government can be helpful in identifying Community Development Block Grant

“ *Clear vision and mission statements should articulate the essence of your organization's beliefs and values and define its place in the world.* ”

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(CDBG) funds or other set-aside grant funding managed by the government entity that is earmarked for re-granting to nonprofits that serve individuals at or below the federal poverty level. The U.S. Department of Housing and Urban Development provides information on the Community Development Block Grant program and eligibility requirements here: <https://www.hudexchange.info/cdbg-entitlement/cdbg-entitlement-program-eligibility-requirements/>.

3. Business and Industry: Are you member of your local chamber of commerce or another business networking group? To identify and recruit a representative of business and industry, you should have, at the very least, a working relationship with the person you plan to approach. Focus most on the individuals that you are most likely to interact with professionally and socially in multiple work and social settings. Make a list of high-profile business owners and/or managers that you know and ask for introductions to help you open the right doors for learning about public grant funding in your community.

Resources:

About Money: <http://nonprofit.about.com/od/boardquestions/a/6-Questions-And-Answers-About-Your-Nonprofits-First-Board-Of-Directors.html>. Insights on how to form a board of directors.

The Bridgespan Group: <http://www.bridgespan.org/Publications-and-Tools/Nonprofit-Boards/Nonprofit-Boards-101/Nonprofit-Board-Structure.aspx>. Useful Q&A on how a board of directors should be structured.

Nolo – Law for All: <http://www.nolo.com/legalencyclopedia/building-nonprofits-board-30046.html>. Clear definitions for board member roles versus staff roles in order to fulfill the conditions in your organization's bylaws.

Foundation Group: <http://www.501c3.org/nonprofit-boardmembers-choose-wisely/>. Valuable advice on how to select initial board members and how to recruit new board candidates to fill vacancies

REMEMBER:

Your board of director members are the foundation for your new nonprofit's success (getting started and staying in business). When choosing potential board members, ask yourself these questions:

- Does this person align with our vision?
- Can this person open the door to donations from individuals and other small businesses?
- Does this person have the time to contribute?
- Does this person understand our mission and embrace our passion for this new organization?
- Is this person willing to reach out and help us connect with potential funders?
- Will this person participate in annual giving to our new organization (cash and time)?

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STEP 3: Filing for Tax-Exempt Status with the Internal Revenue Service (IRS)

Applying for Nonprofit Incorporation in Your State

Some states require that you start your nonprofit incorporation status at the state-level first by filling your articles of incorporation. This is a simple form and can often be completed online. There is usually a fee to file for this status. Note: You will have to list your board of directors officers on this form.

Resources on this subject include include:

USA.gov: U.S. government's official web portal providing links to each state's nonprofit incorporation agency.

Form 1023: <http://form1023.org/how-to-draft-articles-of-incorporation>. Insights into creating your new nonprofit organization's articles of incorporation.

Foundation Center: <http://foundationcenter.org/getstarted/tutorials/establish/bylaws.html>. Tutorials on how to create your new nonprofit organization's bylaws.

Applying for Tax-Exempt Status under Section 501(c)(3) of IRS Tax Code

Federal tax-exempt status is a designation—and a privilege—that can be revoked by the IRS at any time.

While you do not need an attorney or expert to fill out this application (Form 1023) for you, you will need to have input from your board's top officers (president and treasurer) and yourself if you are not elected as a governing body officer. You will also have to provide the full list of your board of directors on this form. The new, easier-to-complete form is now available online. There is a nonrefundable processing fee for filing for this status.

Resources on this subject include:

Internal Revenue Service: <http://www.irs.gov/uac/About-Form-1023EZ>. Information on how to fill out the new easier online e-application to request tax-exempt status for your organization.

Internal Revenue Service: www.irs.gov/pub/irs-pdf/f1023ez.pdf. Provides the entire tax-exempt status application so that you will have a clear understanding of the information that will be requested when you start working on your online e-application.

Pay.gov: <https://www.pay.gov/public/form/start/62759871>. The U.S. Department of Treasury's link for paying the fee that is required when you file online for tax-exempt status.

WHAT IF YOUR ORGANIZATION DOES NOT PLAN ON OBTAINING IRS 501(c)(3) TAX-EXEMPT STATUS?

Potential funders will not view your organization as an eligible grant applicant in this case. Your organization would not be able to apply for grant funding on its own, and it would need to apply for funding using a fiscal agent—a well-established, 501(c)(3) tax-exempt organization that can accept grant awards on your behalf in return for a 5-10% administrative fee. This fee must be built into your grant request and is subject to high scrutiny by potential funders. This is a complex relationship for your organization to take on. Why? When the fiscal agent and the grant applicant are two different entities, potential funders view the capabilities of both organizations with high scrutiny. Funders may be concerned that:

1. Your organization is fledgling (new and financially unstable) and possibly lacking the internal resources to achieve financial stability
2. You are giving away valuable program services money in the form of overhead fees taken out of your grant award by the fiscal agent.

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Part 2 – Building Your Organization's Capacity to Apply for Grants

Developing a Strategic Plan

Strategic planning is an age-old process. A strategic plan can be used to determine your nonprofit organization's mission, vision, values, goals, objectives, roles and responsibilities, timelines, and plan for securing grants. Your strategic plan is also the main organizational management tool to help your board of directors put into writing the roadmap for start-up and/or expansion and ultimately long-term sustainability into writing. This plan answers the following questions:

- Who are we?
- Where are we trying to go?
- What are we trying to do?
- What are the top priorities for the current year? Next year?
- How do we start working on the priorities and who will be responsible for implementing them?
- What is the monthly timeline for our action steps?
- Where will our revenue come from?

A funding plan is simply a grid or table that lists the following (there are many variations):

Funding Priorities	Cost to Implement	Timeline	Potential Funders	Why Approach This Funder?	Average Grant Award Made by Funder	Funder Research Assigned To	Funder Contact Assigned To	Outcome
Startup funding for operating expenses	\$100,000	6 months	Individual contributions	Quick turnaround for decision making	\$1,000	Board President	Founder	In planning process
Corporate Contributions	Quick turnaround for decision making	\$1,000	Board President	Founder	\$25,000	Board Treasurer	Founder	In planning process
Summer Lunch Program for low-income children	\$10,000	9 months	State Department of Agriculture/ Board of Education	History of awarding grants to nonprofits providing feeding services	\$25,000	Board Treasurer	Founder	In planning process
Organizational capacity building — consulting assistance	\$25,000	1 year	ABC Community Foundation	History of awarding grants for grassroots nonprofit start-up assistance	\$50,000	Founder	Founder	In planning process

The following source provides guidance on the strategic planning process for your new nonprofit organization: <http://managementhelp.org/freenonprofittraining/strategic-planning.htm>.

Incorporating a Funding Plan

Okay, you're a newly formed nonprofit tax-exempt organization. Where will your revenue come from? How will you pay the bills? Who's interested in giving you money besides your board members? While these questions should not diminish your excitement and enthusiasm, they should be asked and answered with your board of directors. As a part of your strategic planning process, the board needs to develop a funding plan for the current year and the next year. It is a starting point for looking for contributions and positioning your organization for successful grant seeking.

Resources on this subject include:

Maui Nonprofit: www.maui-nonprofit.org/UserFiles/File/DevelopFundraisingPlan.pdf. Provides guidance in developing a fundraising plan.

Nonprofit Quarterly: <http://nonprofitquarterly.org/2012/02/02/what-should-your-fund-development-plan-include/>. Provides information on what to include your funding plan.

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Developing a General Operating Budget

Now your board of directors will need to develop a general operating budget for the current fiscal year and the next fiscal year. Keep in mind that this is not a static budget document that is set on your current finances; it is your shifting planned budget based on what all of you can raise in individual, corporate, foundation, and local and state government funding. Potential funders will request a copy of your current and future general operating budgets. Most important, the budget creates a goal and stimulates motivation for everyone to roll up their sleeves and work together to bring in the funding that will support the budget.

Resources you should check out include:

Nonprofit Accounting Basics:

<http://www.nonprofitaccountingbasics.org/reporting-operations/budgeting-process>. Provides information on how to start and navigate through your new nonprofit organization's operating budget development process.

Virginia Society of Certified Public Accounts:

www.vscpa.com/Content/Files/vscpa/Documents/2011/Budgeting.pdf. Provides a detailed document that guides you in developing a budget committee under your newly formed board of directors. It also lists roles and tasks required of committee members.

Identifying Sources for Seed Funding

Seed funding is typically composed of smaller amounts of monies (under \$5,000) from one or several types of funding sources that can help your nonprofit organization get started. Your initial financial assets will be limited and the likelihood of you being able to subscribe to online grant research databases is slim. The following is a list of grant research websites that are free access:

Fundsnet Services: <http://fundsnetervices.com/>. Provides a free grant search service.

Foundation Center: <http://foundationcenter.org/findus>. Provides a map and clickable links to free access points for the Foundation Center's online directory of over 100,000 grant maker profiles.

Christian Grants: http://www.christianvolunteering.org/foundationgrants.jsp#fq=content_type:organization&fq=org_member_type. Provides a free directory of grant makers for Christian nonprofit organizations.

Funds for NGOs: <http://www.fundsforngos.org/category/latest-funds-for-ngos/>. A listing of grants for nonprofit governmental organizations seeking international grants.

NOTE:

Every member of your board of directors needs to participate in upfront and annual monetary giving. This is done under a "give or get" policy. To better understand what the process is and how to incorporate it into your board's orientation and ongoing training activities, consult this great resource from the Association of Fundraising Professionals: http://www.afpnet.org/files/ContentDocuments/AIE_Bristol_BoardGiveorGet.pdf

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SUMMARY OF THE CRITICAL STEPS NEEDED FOR SUCCESSFUL GRANT APPLICATIONS

- Create a vision statement
- Form a government body
- Apply for a federal employer identification number
- Apply for nonprofit incorporation in your state
- Apply for tax-exempt status under Section 501(c)(3) of the IRS Tax Code
- Develop a strategic plan
- Incorporate a funding plan
- Develop a general operating budget
- Identify sources for seed funding award by the fiscal agent.

How to Contact the Author

Dr. Beverly A. Browning can be contacted at bbrowning@ecivis.com when your organization is ready to secure grant writing services. You can learn more about eCivis at www.ecivis.com and visit our grants management blog at blog.ecivis.com for helpful articles on all things grants-related.



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