

Profitable Solutions for Nonprofits

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Strength in Numbers

Grant Writing:

Giving it your best shot

Applying for a grant in an economic downturn can *seem* like an unlikely long shot. But securing funding is far from impossible. Foundations alone awarded \$32 billion in grants in 2008, according to Foundation Center and Giving USA estimates. And while funding is down significantly over recent years, grants continue to be a major funding source, helping scores of charities fulfill their missions and stay afloat. Federal, state, local and corporate grants add to funding opportunities.

Get the ball rolling

Your first step is to research the grants that are available. You can find a mountain of information about funders' requirements online. And while seeking a funder with a mission similar to yours is helpful, you'll want to match your project to your grantor's priorities rather than the other way around.

Also keep an eye on location. Some foundations award grants nationwide while others focus on specific geographic areas. Start with applications to local funders and then branch out.

Think broadly

Stay open to all *types* of grant sources — not only private foundations, but also local, state and federal governments and corporations. Also look for “mini-grants,” small funding amounts typically available from corporations and nonprofits. As funders have cut back, mini-grants have replaced heftier grants in some cases. But a “mini” may be enough to fund a need.

Also, consider applying for a grant with one or more like organizations. Collaborative projects have grown in popularity with grantors in recent years. Funders are attracted to collaboration benefits such as avoiding project duplication, expanding staff resources and the geographic area served, and multiorganizational oversight.

Write well — and smart

Make every word in the proposal count, and follow the length requirements to a “T.” Write for an intelligent reviewer, not for an expert in the field; a common mistake is losing the reader by introducing ideas that are too complex. Ask one or two of your board members to read the proposal before you submit it.

What you want to do is grab the reader's attention about your project. Simple and direct language will work best. Do, however, echo some of the funder's own key words that you discovered during the research phase.

Sell your project

Like its length, the *format* and information required in your grant proposal will vary by funder. But every funder typically seeks answers to these questions:

Who is this organization? Convincing the funding source that it can trust you with its money is key. Establish your organization's credibility by explaining its mission, major accomplishments and endorsements. Include other projects that have been funded and expound on their successful outcomes.

What are the project's goals? Give a well-defined, outcome-based goal or goals for your project. Desired outcomes should be measurable. For example, let's say yours is a literacy organization seeking funding for its tutoring program. You might state, "The project is designed to increase the reading proficiency of students by at least two grade levels in one year."

Why is the project needed? Describe data-driven problems or needs. For example, using credible data, the literacy organization might state that "20% of the adult population in Anytown, USA, has a reading level below the third grade."

How will the goals be reached? Describe key activities and project specifics. For example, "150 adult students will receive three hours of one-on-one English as a Second Language (ESL) tutoring once per week at the Anytown, USA, Public Library." If available, include any research that supports the pairing of your proposed activities with the desired results.

How will the funds be used? For example, the literacy organization might plan to purchase a textbook and workbook aimed at each student's literacy level and pay for the time of three qualified instructors. Be sure to supply itemized estimates of such costs.

How will the outcomes be measured? Offer proof that you've obtained the results you were after. (Some grantors, though, will be satisfied if you've made progress in that direction or learned from the experience.) The literacy organization, for example, could cite the standard test it plans to use to evaluate each student's reading progress.

What about the future? Describe how your project is sustainable, scalable and reproducible in case you want to re-create or upgrade the project and expand it at different locations in the future.

Put it all together

Developing a winning grant proposal requires diligent research, strong writing and enough factual information to enable the grantor to make a decision. It also calls for the ability to assimilate what the grantor is looking for and how your organization's project fills that bill.

Making the extra effort

Once you've selected a grant opportunity that's a good fit for your organization, read the funder's guidelines until you fully understand what's required. Then contact the grantor to get an even better feel for what it seeks in a project. The funding source may be more than willing to provide insights into its funding process and point you to previous, successful grant applications.

Moreover, talking directly with the grantor can shed light on your chances of actually securing a grant. It's better to find out upfront whether developing a proposal for this funding source may simply be a waste of time.

Also take the time to determine if any extra administrative costs would accompany accepting the funds. There could be, for example, additional expenses for added cost reporting or audit requirements.

Fiscal sponsorship Q & A

Your organization may be too new — or too small — to have obtained its tax-exempt status. Or, if you're well-established, you may have an opportunity to expand your programs by joining forces with a smaller or newer organization. In either case, fiscal sponsorship is a structural arrangement with another organization that you may want to consider. Here are the answers to some questions you may have about this special relationship.

Q: What is fiscal sponsorship?

A: It's a relationship in which a nonprofit with 501(c)(3) status sponsors a societal-minded project/group that doesn't have tax-exempt status. The fiscal sponsor is legally and financially responsible for the project. "Project" typically refers to either an ongoing group or a one-time project.

Q: How does it work?

A: The fiscal sponsor is responsible for managing funds and acts as a "guardian" for the donations and grants the project receives. Donations are made to the sponsor, which qualifies the donors for a tax deduction. The sponsor employs the staff that works on the project and monitors activities to the same extent it monitors any of its other programs. It's the sponsor's responsibility to ensure that the project is within its mission and doesn't adversely affect its tax-exempt status.

Q: What are the benefits for the "sponsee"?

A: Sponsorship allows an entity to fulfill a mission without going through the process of incorporating and applying for tax-exempt status. The sponsor can provide the back-office support that small nonprofits often lack. Also, because donations to a 501(c)(3) organization are tax-deductible, the potential for donations is greater. And the sponsor may have much greater name recognition than the smaller or newer organization.

Q: What are the pros and cons for the sponsor?

A: The sponsor benefits because the added project could bring additional recognition in the community for "doing more." This, in turn, might attract new funders. The downside is that the sponsor may assume responsibilities that carry unanticipated risks or require additional infrastructure or cost not beneficial to the organization. The added responsibilities also might divert the sponsor from its primary programs and purpose.

Q: What types of groups are right for fiscal sponsorship?

A: New nonprofits who want to start operating, but have yet to receive 501(c)(3) status, are logical sponsee candidates. So are very small groups that lack infrastructure.

Sometimes even individuals are sponsored. For example, Fractured Atlas is a nonprofit that sponsors a national community of individual artists as well as art organizations.

Q: What's the difference between a fiscal agent and a fiscal sponsor?

A: A *fiscal agent* accepts donations and merely moves them on to the intended recipients. The IRS regards such donations as a direct donation to the intended recipients. A *fiscal sponsor* is legally responsible for the project and the funds. The sponsor doesn't merely receive the funds — it controls the project and accounts for the activity in its financial statements and on Form 990.

Q: What should you look for in a fiscal sponsor?

A: The two entities should have a similar mission and vision. And the sponsor should be financially strong enough to enable the sponsoree to run continuously without interruption. Look for elements — and your financial advisor can help you with this — such as: strong internal controls based on Generally Accepted Accounting Principles and other federal regulations, written policies and procedures for administration and risk management, and enough staff to fulfill agreed-upon services.

Q: How do you get started?

A: Both organizations need to work out the terms of the relationship *before* getting started, such as who will have the authority to make decisions. You'll also need to determine how disbursing funds will be handled and who will take care of reporting requirements. For example, typically the sponsor is responsible for fiscal reporting to the foundations or other grant-giving bodies. You also should agree on how long the project will last, as well as how assets and activities will be severed from the sponsor when the two entities part ways.

Audited financial statements

First impressions

If you want to impress potential lenders and funders, you need to show them that you measure your organization's financial health with care and frequency. Presenting timely audited financial statements upfront can make the difference between being turned down for a loan and getting one.

Annual financial statements, particularly audited ones, present sound measurement of your nonprofit's financial stability. Here are some tips for preparing them:

1. Understand your auditor's role. Your auditor is responsible for expressing an opinion on your financial statements. Beyond that, he or she is responsible for obtaining *reasonable assurance* that your financial statements are free of material misstatements — be it from error or fraud.

Management, on the other hand, is responsible for developing estimates, such as the allowance for bad debts, adopting sound accounting policies, and establishing, maintaining and monitoring internal controls, as outlined in the American Institute of Certified Public Accountants' standards. Although your auditor may make suggestions about these items, it isn't his or her responsibility to institute them or to ensure they're working properly.

What your auditor is required to do is evaluate whether internal controls, accounting policies, and estimates are adequate to prevent or detect errors or fraud that could result in material misstatements of the financial statements. But remember, all decision-making is strictly management's responsibility. If the audit is performed in accordance with Government Auditing Standards, the restrictions on what an auditor should do are even more stringent.

2. Understand the board's role. Sometimes the board of directors' role is overlooked in annual financial statement preparation, and that's a mistake. Keep in mind that the board generally has a strategic and oversight role in the process, which is part of its overall fiduciary duty. But the board isn't responsible for "completing the job." Board members can, however, be a good resource for certain technical matters, depending on their professional background.

3. Understand statement formats. Annual financial statements are designed to help you manage your organization. Financial statement items — such as debt ratios, program vs. administrative expense ratios and restricted vs. unrestricted resources — can indicate how a nonprofit is doing. So when your organization’s leadership team is preparing them, make sure the statements are as user-friendly as possible.

One of the best ways to see the big financial picture is to compare your budget, your year end internally generated financial statements, and the financial statements generated during the annual audit. This task can be completed more easily if the format of your annual audited statements is similar to that of your internal financial statements and budgets. Keep in mind that audited financial statements may be formatted differently than internally generated reports, so management may need to develop a bridge between the two reports, perhaps in the form of an internal memo.

When reviewing internal vs. audited statements, look for any large differences in individual accounts resulting from audit correcting adjustments — these are often an indication of an internal accounting deficiency. You’ll also be able to spot any significant discrepancies between what was budgeted for the year and the actual outcome.

These variances will help you evaluate your nonprofit’s performance and plan for the coming year. Also, your financial statements should make it fairly easy to determine which resources are restricted for particular purposes or time periods.

Newsbits

IRS releases “due date” tables

Do you know when your tax-exempt organization’s returns are due to the IRS? In case you need a nudge, the agency has put together several tables for finding out the due dates of various required forms and reports, including annual returns, Form 990 and its variants, excise tax returns (Forms 4720 and 6069) and employment tax returns.

For example, if your organization has a Dec. 31 year end, your Form 990-T has an initial return due date of May 15. Dates for filing special forms also are available, such as those used to report the donation of a motor vehicle. To find out the deadlines, go to <http://www.irs.gov>. Then, using the advanced search feature, type in “EO Update December 10, 2009.”

Raising funds at events — just ask

Most nonprofits use special events to help them raise awareness, but not all organizations capitalize on the opportunity for savvy fundraising. Event 360, a designer and director of events for nonprofits, suggests asking participants a direct question before they head out the door — for example, “Will you help support us by participating or donating?”

The consultants also suggest that you:

- Practice developing your “ask” by describing in one sentence what your organization does to improve the world,
- Create a well-articulated “ask” that’s specific, concise, tailored to a defined outcome and hard to refuse, and
- Explain how participants can help you achieve your goal through specifics. For instance, saying “Your donation will put 50 dinners on the table next week” is much more compelling than saying “Your donation helps the homeless.”

You should remember that many event participants don’t donate directly but rather ask others for their support. So, for example, instead of asking participants to “raise money,” you should query, “Will you ask 10 of your friends to donate to us?” Then be sure to equip participants with the training and materials to ask others for support on your behalf. And, of course, make sure that all checks are made out directly to your charity. For more fundraising tips, go to <http://www.event360.com>.

Exempt status steps

Updated IRS Rev. Proc. 2010-9 took effect Jan. 11, 2010, for the request, issuance and appeal of determination letters and rulings on the exempt status of organizations under Internal Revenue Code Sections 501 and 521.

The updated procedures also concern revocations and modifications of determination letters and rulings. And they supply guidance on the exhaustion of administrative remedies for purposes of declaratory judgment proceedings under Code Sec. 7428.