



The Standards for  
**excellence**

*An Ethics & Accountability Program for the Nonprofit Sector*

**RESOURCE AND  
DEVELOPMENT PLAN**

**A STANDARDS FOR EXCELLENCE®**

**EDUCATIONAL RESOURCE BULLETIN**



*For people with intellectual  
and developmental disabilities*

**The Arc of the United States**

1825 K Street, NW, Suite 1200

Washington, DC 20006

Phone: 202-534-3700

[www.thearc.org](http://www.thearc.org)

©2014, Standards for Excellence Institute. Intended for use by members of the Standards for Excellence Institute only. No part of these materials may be reproduced or transmitted in any form, or by any means, electronic or mechanical, including photocopying, recording, or by any other information storage retrieval system without written permission from the Standards for Excellence Institute.

## **PREAMBLE**

America's nonprofit sector serves the public interest and plays an essential role in our society and economy. Hard at work strengthening communities across the nation, nonprofits enrich our lives in a variety of ways by creating a broad array of benefits to society in fields such as charitable, religious, scientific, economic, health, cultural, civil rights, environment, and education.

Public investment and confidence drive the success of nonprofit organizations. Individuals, corporations, foundations, and federal, state, and local governments add value to the services that nonprofits provide by investing time, resources, and funds.

The Standards for Excellence Institute aims to raise the level of accountability, transparency, and effectiveness of all nonprofit organizations to foster excellence and inspire trust. The Standards for Excellence code (Standards, or code) provides a framework and step-by-step guidelines to achieve a well-managed and responsibly governed organization.

The code builds upon the legal foundations of nonprofit management, governance, and operations to embrace fundamental values such as honesty, integrity, fairness, respect, trust, compassion, responsibility, and transparency. The code consists of six Guiding Principles in 27 topic areas with specific performance benchmarks that characterize effective, ethical, and accountable organizations. The Institute helps the nonprofit sector operate in accordance with the Standards for Excellence code by providing educational resources, assistance, and a voluntary accreditation process.

The Standards for Excellence Institute encourages all nonprofit organizations to adopt the Guiding Principles of the Standards for Excellence code. By implementing the performance benchmarks in the code, nonprofit organizations will meet the highest ethical standards for effective service in the public interest.

## **STANDARDS FOR EXCELLENCE - GUIDING PRINCIPLES**

### **I. MISSION, STRATEGY, and EVALUATION**

Guiding Principle: Nonprofits are founded for the public good and operate to accomplish a stated purpose through specific program activities. A nonprofit should have a well-defined mission, and its programs should effectively and efficiently work toward achieving that mission. Nonprofits have an obligation to ensure program effectiveness and to devote the resources of the organization to achieving its stated purpose.

### **II. LEADERSHIP: BOARD, STAFF, and VOLUNTEERS**

Guiding Principle: Nonprofits depend upon effective leadership to successfully enact their missions and programs. Effective leadership consists of a partnership between the board and management, each of which plays an essential role. Understanding and negotiating these shared and complex elements of leadership is essential to the organization's success. A nonprofit's employees and volunteers are fundamental to its ability to achieve its mission.

Board members are in a position of trust to ensure that resources are used to carry out the mission of the organization. An organization's board leadership should consist of volunteers who are committed to the mission and who demonstrate an understanding of the community served. An effective nonprofit board should determine the mission of the organization, establish management policies and procedures, assure that adequate human and financial resources are available, and actively monitor the organization's allocation of resources to effectively and efficiently fulfill its mission.

Nonprofits should also have executive leadership which carries out the day-to-day operations of the organization, ensures financial and organizational sustainability, and provides adequate information to the board of directors. An organization's human resource policies should address both paid employees and volunteers and should be fair, establish clear expectations, and provide meaningful and effective performance evaluation.

### **III. LEGAL COMPLIANCE and ETHICS**

Guiding Principle: Nonprofits enjoy the public's trust, and therefore must comply with a diverse array of legal and regulatory requirements. Organizations should conduct periodic reviews to address regulatory and fiduciary concerns. One of a leadership's fundamental responsibilities is to ensure that the organization governs and operates in an ethical and legal manner. Fostering exemplary conduct is one of the most effective means of developing internal and external trust as well as preventing misconduct. Moreover, to honor the trust that the public has given them, nonprofits have an obligation to go beyond legal requirements and embrace the highest ethical practices. Nonprofit board, staff, and volunteers must act in the best interest of the organization, rather than in furtherance of personal interests or the interests of third parties. A nonprofit

should have policies in place, and should routinely and systematically implement those policies, to prevent actual, potential, or perceived conflicts of interest. Ethics and compliance reinforce each other.

#### IV. FINANCE and OPERATIONS

Guiding Principle: Nonprofits should have sound financial and operational systems in place and should ensure that accurate records are kept. The organization's financial and nonfinancial resources must be used in furtherance of tax-exempt purposes. Organizations should conduct periodic reviews to address accuracy and transparency of financial and operational reporting, and safeguards to protect the integrity of the reporting systems.

#### V. RESOURCE DEVELOPMENT

Guiding Principle: The responsibility for resource development is shared by the board and staff. Nonprofit organizations depend on an array of sources of financial support. An organization's resource development program should be maintained on a foundation of truthfulness and responsible stewardship. Its resource development policies should be consistent with its mission, compatible with its organizational capacity, and respectful of the interests of donors, prospective donors, and others providing resources to the organization.

#### VI. PUBLIC AWARENESS, ENGAGEMENT, and ADVOCACY

Guiding Principle: Nonprofits should represent the interests of the people they serve through public education and public policy advocacy, as well as by encouraging board members, staff, volunteers, and stakeholders to participate in the public affairs of the community. When appropriate to advance the organization's mission, nonprofits should engage in promoting public participation in community affairs and elections. As such, they should communicate in an effective manner to educate, inform, and engage the public.

### **ABOUT THE STANDARDS FOR EXCELLENCE INSTITUTE**

The Standards for Excellence Institute is a national initiative established to promote the highest standards of ethics and accountability in nonprofit governance, management and operations, and to facilitate adherence to those standards by all nonprofit organizations. The Institute uses as a vehicle the Standards for Excellence program, a system of nonprofit sector industry self-regulation originated by the Maryland Association of Nonprofit Organizations and currently replicated by licensed partners in Alabama, Central Virginia, Colorado Springs, Delaware, Ohio, Oklahoma, Pennsylvania, and West Virginia. The program is also being offered to chapters of The Arc nationwide through The Arc of the United States, to the American Nurses Association, and to Catholic nonprofit organizations nationwide through the National Leadership Roundtable on Church Management.

The centerpiece of the Institute's program is the Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector. The Institute also makes available to member organizations a comprehensive system of educational tools to enable individual nonprofit organizations to improve their governance and management practices. Standards for Excellence accreditation is available to individual organizations through a rigorous peer review process in selected locations and nationwide through the Standards for Excellence Institute.

For more information about joining the Standards for Excellence Institute or to obtain additional copies of the booklet or educational resource packets visit our website at [www.standardsforexcellenceinstitute.org](http://www.standardsforexcellenceinstitute.org).



# The Standards for excellence

*An Ethics & Accountability Program for the Nonprofit Sector*

## **TOPICAL BULLETIN: RESOURCE DEVELOPMENT PLAN**

As the *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector*® states:

### **RESOURCE DEVELOPMENT PLAN**

#### **A. Resource Plan**

Nonprofits should have a resource development plan in place. This plan should outline a framework for ensuring appropriate financial resources for the organization, and a reasonable process to evaluate cost effectiveness of all resource development activities. Ideally, the resource plan should include diversified income sources to avoid dependence on a single source. The resource development plan should be board-approved, regularly reviewed, and in accordance with the organization's budget.

#### **B. Sources of Income**

When determining what types of income sources are pursued by a nonprofit to meet its mission, the organization should carefully consider the income source's impact on the population served, its demographics, and overall mission alignment. The organization should also assess these sources of income for feasibility and any associated risk.

### **Introduction**

Each nonprofit organization is responsible for determining the feasibility of raising funds from different sources and for developing a plan to raise the money using methods appropriate to the organization. The following helpful definition of a resource development plan is offered by Bremer Bank's Nonprofit Resource Center, "a strategy designed to identify and secure resources needed to advance the mission and strategic goals of the organization."<sup>1</sup>

A plan may focus on only a few sources, or have a conscious goal of "broadening the base" of fundraising efforts. However, a plan must have more than goals. An effective fundraising plan must identify what resources will be required to carry it out and what tasks will take place over a specific time period. It is especially important that the plan clearly defines which tasks are the responsibility of staff and which are the responsibility of board members, since this is frequently an area of contention.

---

<sup>1</sup> Bremer Bank's Nonprofit Resource Center, <http://nonprofitresource.blogspot.com/2008/08/fund-development-plans-key-to.html>

## Elements of a Resource Development Plan

- Analysis of current resource development efforts, including strengths and weaknesses
- Goals for how much money will be developed and raised
- Strategy for how the funds will be developed
- Plans for building relationships
- Timing or calendar for how the funds will be developed
- Who is accountable for developing and raising funds from various planned sources
- How much it will cost to raise the resources
- Net income once the goals and costs are factored together
- Evaluating the progress for the Resource Development Plan

### *Sources*

*Six Principles of a Good Fundraising Plan* by Mazarine Treyz

<http://wildwomanfundraising.com/fundraising-planning-how-to/>

*The Operational Plan: How to Create a Yearlong Fundraising Plan: 2011-2012 Edition*, 2011, Stevenson, Inc. [http://www.nonprofitalliance.org/system/res/135/original/tool\\_06.12.pdf](http://www.nonprofitalliance.org/system/res/135/original/tool_06.12.pdf)

*What Should Your Fund Development Plan Include?*

Nonprofit Quarterly, Simone Joyaux, February 2, 2012, The Nonprofit Quarterly.

## Carrying out the Resource Development Plan

One of the most frustrating situations for nonprofit executives is to spend valuable and limited time and money creating a resource development plan (or for that matter, any type of plan), only to find that the plan sits on a shelf or is forgotten. Unless the plan is actually executed, it can never be successful.

With any plan, it is just as important to come up with the mechanisms to charge ahead and meet the goals of the development plan as it is to write the plan itself. These mechanisms could take many forms. They may include tools such as:

**Checklists:** Perhaps the development of the plan uncovered aspects of the organization that need to be improved before the organization can have incredible success. For example, you may find that you need to have a donor management database in place, you may need to get training for your board of directors on how to effectively raise funds, or you may need to strengthen your organization's communications with stakeholders of all types.

**Calendars for areas like grants, individual donor appeals, special events:** These help to create a structure for planning backwards over the course of a fiscal year (or other timeframe) so that all of the income elements described in the development plan will have the maximum opportunity for success.

**Worksheets for the forecasting various income sources:** The worksheets serve as an exercise to help you determine the likelihood of being successful with various funders, income sources, events, and other money generating activities. It is a good idea to start with an assessment of your current funding picture and move onto the planned resource development picture.

In their *Recession Tool Kit*, Kathy Shulman and Julia Pierson offered a comprehensive income worksheet that included the following columns:

- Income source
- Current annual amount
- What will happen? (increase, stay the same, decrease)
- Likelihood (certain, likely, at risk)
- Projected amount for this time period (best case, worst case)
- Notes/comments

This income worksheet is found in Attachment C of this bulletin.

Be sure to be as realistic as possible when projecting and planning for all sources of income. It is helpful to reach out to partners, funders, government contract and grant officers. Researching trends and keeping up with public policy issues that may affect your income generation are also vital steps.

***Deliberative method for evaluating how the results of the plan are panning out:***

Ensure that all goals have specific, measurable strategies for putting the plan into action. Put in place specific (and frequent) check in times to assess and monitor help well your organization is doing to meet the goals of the resource development plan. Perhaps this is wrapped into your board's regular (monthly, bimonthly, or quarterly) review of internal financial reports. Perhaps this is part of a regular check in with staff members responsible for carrying out discrete sections of the plan or the entire plan itself.

**Sample Income Streams that may be found in a Resource Development Plan**

- Annual Giving
  - Directly from individuals
  - Indirectly through federated fundraising campaigns
- Campaign gifts
- Special restricted and unrestricted gifts
- Bequests
- Special events, ticket sales
- Membership fees
- Fees for Service
- Grants
- Tuition
- Unrelated business income
- Bequests and other planned gifts
- Donations from individuals, family foundations, corporations, foundations, and government

**MAJOR CATEGORIES OF SUPPORT FOR NONPROFIT ORGANIZATIONS**

**Operating** (general support) - Covers costs of running the organization to meet community needs.

- Contributions from individuals (annual fund)
- Foundation and corporate grants
- Earned income
- Interest from endowment

**Special Projects** - Used to start up a new program or to fund a project with a limited time frame.

- Foundation and corporate grants
- Government agencies
- Individuals

**Capital/Equipment** - Used to build or renovate a physical plant, purchase land, or purchase major equipment.

- Capital campaigns
- Major gifts
- Foundations, corporations, government agencies

**Endowment** - Principal held as long-term investment while income is used for operations.

- Individuals (planned gifts)
- Endowment campaigns

Strategies to raise funds may include face-to-face fundraising, direct mail, telemarketing, web-based campaigns, and social media fundraising

## **SELECTED RESOURCES**

### **Books**

Lysakowski, Linda *Nonprofit Essentials: The Development Plan, July 2013, Association of Fundraising Professionals Ready Reference Series.*

Sprinkel Grace, Kay, *Beyond Fundraising: New Strategies for Innovation and Investment in Nonprofits* (Second Edition, 2005)

### **How to Create a Development Plan**

*Resource Development Plan: Getting Started*

<http://www.afpnet.org/ResourceCenter/ArticleDetail.cfm?ItemNumber=4139>

*The Operational Plan: How to Create a Yearlong Fundraising Plan: 2011-2012 Edition*, 2011, Stevenson, Inc. This document provides a comprehensive sample with strong section on the historical perspective with checklists, sample reporting tools, and planning broken down by daily planning, weekly planning and yearly planning.

[http://www.nonprofitalliance.org/system/res/135/original/tool\\_06.12.pdf](http://www.nonprofitalliance.org/system/res/135/original/tool_06.12.pdf)

*Alliance Guide to Fundraising: Part One: Creating and Implementing an Effective Fundraising Plan* by the Alliance for Biking and Walking, May 2012. This guide cautions against using a plan template and instead offers that each plan is different and varies depending on the “organizations, missions, budget, financial goals, and fundraising opportunities.” Provides an easy to understand, step by step approach to fundraising plan development.

[http://www.peoplepoweredmovement.org/site/images/uploads/Fundraising\\_Guide\\_1\\_-\\_Creating\\_a\\_Plan.pdf](http://www.peoplepoweredmovement.org/site/images/uploads/Fundraising_Guide_1_-_Creating_a_Plan.pdf)

### **Sample Development Plans**

*Development Plan and Templates* from Project Soar (Project for Strengthening Organizations Assisting Refugees), includes a quarterly goals timeline and calendar and with a helpful example of a comprehensive financial projections and tracking tool

<http://www.ethniccommunities.org/wp-content/uploads/2011/09/Resource-Development-Plan-and-Timeline-Templates.pdf>

*Sample Annual Fund Development Plan*, Association of Fundraising Professionals Excerpt from AFP First Course I Fundraising, 2009

[http://www.lorijacobwith.com/downloads/AFP\\_FirstCourseInFundraising-doc.pdf](http://www.lorijacobwith.com/downloads/AFP_FirstCourseInFundraising-doc.pdf)

## **Resources on Selected Income Sources**

### **Grants**

*Are you ready to apply for a grant?* Saltzberg Consulting,

<http://www.saltzbergconsulting.com/AreYouReady.html>

See Appendix I Grants below.

## **Individual Giving**

*Fundraising for Social Change*, Kim Klein, May 2011, Jossey Bass.

Also see: The Standards for Excellence Institute's *Disclose It: A Charitable Nonprofit's Guide to Disclosure Requirements*, 2014 (found in the Standards for Excellence Educational Resource Packets, Openness and Fundraising Practices).

Also see attachments section

## **Social Media Fundraising**

Nonprofit Marketing Guide has a lot of social media fundraising strategy articles/blogs  
<http://www.nonprofitmarketingguide.com/resources/category/fundraising/>

## **Special Events**

See Attachment J section

## **Social Enterprise**

*Social Entrepreneurship: The Case for Definition*, an excellent and helpful starting point for understanding topic, comments are helpful as well.

[http://www.ssireview.org/articles/entry/social\\_entrepreneurship\\_the\\_case\\_for\\_definition/](http://www.ssireview.org/articles/entry/social_entrepreneurship_the_case_for_definition/)

*Nonprofit Social Enterprise: Models and Funding* by Green for All provides an introduction for nonprofit organizations that are considering social enterprise strategies, including information on the opportunities and challenges.

<http://greenforall.org/resources/reports-research/nonprofit-social-enterprise-models-and-funding/>

*Nonprofit Social Enterprise: Models and Funding*, Green for All, February 2012, provides a good overview of social enterprise with examples and background

<http://www.niqca.org/documents/Social%20Enterprise.pdf>

## **Supporting Organizations**

See Attachment L below.

## **ATTACHMENTS**

Attachment A: Sample Resource Development Plan, Standards for Excellence Institute

Attachment B: Sample Board Development Calendar

Attachment C: Income Worksheet (Recession Toolkit)

Attachment D: Fundraising Case Statement

Attachment E: Fundraising Readiness Worksheet

Attachment F: Annual Campaign

Attachment G: Telemarketing and Phone-a-Thons

Attachment H: Major Gifts

Attachment I: Grants

Attachment I: Federated Fundraising

Attachment J: Special Events

Attachment K: Planned Giving Overview

Attachment L: Supporting Organizations

**ATTACHMENT A**

**SAMPLE RESOURCE DEVELOPMENT PLAN  
FY20xx**

**Introduction**

The purpose of this development plan is to outline the strategic steps required to reach the 20xx contributed revenue goals, as well as the board and staff responsibilities in accomplishing the plan.

This plan identifies targeted contributed revenue financial goals necessary to support the FY20xx operating budget as well as non-monetary strategic goals that impact the success of this plan.

**Financial Goals**

Projected Contributed Revenue Budget: The amount needing to be raised

	<b>FY20xx Projection</b>	<b>FY20xx Re-Forecast</b>
Individuals		
Board (current & former)		
General		
Insert Program Name		
Insert Program Name		
Insert Program Name		
Foundations – General		
Corporations – General		
Networking		
Other		
Sponsorships		
<b>Grand Total</b>		

**Strategic Goals (non-Monetary)**

**Individual Giving**

- Maintain giving from current individual donors – approximately XX donors<sup>2</sup> – while working to increase number of donors to XX.
  - Identify new audiences to send solicitation letters (i.e. executive directors, other professional staff of member organizations).
- Achieve 100 percent board giving by December 31, 20xx.
- Develop and implement a system to track board “gets”.
- Engage all board members in fundraising activities including research, introductions, direct asks, acknowledgements, etc.

---

<sup>2</sup> This includes the number of donors that gave to all program areas in the previous year.

- Increase the number of former board members that are giving from XX to XX.
- Identify XX major donor prospects; have XX meetings; solicit XX contributions; receive XX gifts.

**Foundations and Corporations**

- Maintain giving from current foundation and corporate donors – approximately XX donors.
- Identify XX new foundation and corporate prospects; apply for XX new grants; achieve X percent success rate for grants submitted.
- Develop new initiative involving Community Foundations and United Ways to support Research Initiatives.
- Enhance communications with funders
  - Develop communications tracking form for funder files
  - Send at least quarterly updates on progress.
  - Host annual gathering of funders on state of organization.
  - Meet with current foundation and corporate funders at least once during the fiscal year.

**Sponsorship**

- Review all sponsorship opportunities to determine the best options for the organization.

**Other**

- Host quarterly development committee meetings
  - Add two non-board members to the development committee<sup>3</sup>
- Revise Business Leadership Council to an Advisory Committee/Council
- Maintain systems for on-going monitoring/evaluation of progress in all areas of development

**Solicitation Strategies – Individuals**

**1. Board Members – Current**

Timeframe: Month 20xx

# of Prospects: XX current board members

Goal: XX; Re-forecast Revision: XX

Method: What methods will be used to accomplish this?

Solicitor: Who will be responsible for this strategy?

**2. Former Board Members**

Timeframe: Month 20xx

# of Prospects: Approximately XX

Goal: XX (X gifts of at least \$XX); Re-forecast Revision:XX

---

<sup>3</sup> This is dependent on whether allowable according to the bylaws.

Method: Identify XX former board members to do personal request (phone calls and meetings). What other methods will your organization use?

Solicitor: Who will be responsible for this communication?

### **3. Current Donors**

Timeframe: Month 20xx

# of Prospects: XX

Goal: \$XX; Re-forecast revision: \$XX

Method: What methods will be used to accomplish this?

Solicitor: Who will make the contact for this strategy?

### **4. Other Individuals<sup>4</sup>**

Timeframe: Month 20xx

# of Prospects: XX

Goal: \$XX; Re-forecast revision: N/A

Method: What methods will be used to accomplish this?

Solicitor: Who will make the contact for this strategy?

## **Solicitation Strategies – Foundations and Corporations**

### **1. General Support**

Timeframe: When will this task be started/finished?

# of Proposals: XX

Goal: Amount

Method: What methods will be used to complete this goal?

Solicitor: Who will be responsible for these contacts?

---

<sup>4</sup> This ask relates to staff giving.

## **2. Leadership Initiative**

Timeframe: When will this task be started/finished?

# of Proposals: XX

Goal: Amount

Method: What methods will be used to accomplish this?

Solicitors: Who will be responsible for these contacts?

## **Solicitation Strategies – Sponsorship**

### **1. Sponsorship Opportunity**

Timeframe: When does this opportunity take place? What is the time needed prior to secure the sponsorship?

# of Proposals: XX

Goal: How many sponsors and at what level?

Method: How will these sponsorships be obtained?

Solicitors: Who will be responsible for these sponsorships?

### **2. Special Programs**

Timeframe: When do these programs take place?

# of Proposals: XX

Goal: XX

Method: How will these contacts be made?

Solicitors: Who will be responsible for these contacts?

## **Stewardship Activities**

### **1. Foundation and Corporate Reports**

Timeframe: Define timeframe

# of Reports: XX

Method: Write report on activities

Reporters: Who will complete these reports?

## **2. Grant Acknowledgment**

Timeframe: Define timeframe  
# of Letters: Equal to the number of grants received  
Reporters: Who will complete these acknowledgments?

## **3. Individual Donor Acknowledgement Letters**

Timeframe: Define timeframe  
# of Letters: Equal to the number of gifts received  
Reporters: Who will complete these acknowledgments?

## **Cultivation Strategies**

The purpose of cultivation is: Outline the purpose for cultivation

- To add prospects to our donor base and develop them to become active supporters and regular donors
- To improve relationships with current foundation, corporate and individual donors, and other friends of ORGANIZATION NAME.

### ***Type of Cultivation***

Timeframe: What is the timeframe?  
Goal: What is the goal of this cultivation?  
Methods: What methods will be used to achieve the goal?  
Responsible: Who will be responsible for this goal?

### ***Communications***

Holiday Card: Holiday greeting card to all donors and friends of the organization  
Funder Email: XX times a year; email will be sent to organizations' foundation, corporate, and individual donors to provide regular updates on programs and services  
Annual Report: Annual update of activities; will be emailed to all donors as part of the newsletter and the organization's general email list. Will be posted to the organization's website in the "About Us" section.  
What annual communications does the organization produce and use as a fundraising tool?

## **Monitoring the Development Plan and Process**

- How often will those in charge of components of this plan meet?
- How often will financial information be reviewed, and who is responsible for putting together the data?
- Define the communication plan for those responsible.

## ATTACHMENT B

### Development Calendar Example

		20xx												20xx											
Key Activities		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec
Creation of _____. (by Jan 1)																									
Establish sponsorship program (no later than 2/15/xx)																									
Creation of DVD “sizzle” reel (no later than 2/14)																									
Creation of packet (no later than 2/14)																									
Corporate solicitation																									
Mailings																									
Monthly e-newsletter																									
<b>GRANT</b>	Foundation #1																								
	Foundation #2†																								
	Foundation #3†																								
<b>EVENTS*</b>	Special Event #1			3/11																					
	Special Event #2																		6/13- 6/19						
	Special Event #3																			7/27- 8/12					
	Special Event #4								9/10- 9/11												9/15- 9/16				
	Special event Day								9/4												9/9				

† Since the dates for these grants have not yet been posted, these are estimates based on the application deadline dates from previous years.

\*For the sake of brevity, only large events with a direct tie to the commemoration are listed on the calendar; smaller commemorative events or already existing events that we could explore a presence/partnership to help with marketing and other fundraising efforts for the years 20xx and 20xx

Developed using the following as a reference: Stanley Weinstein, *The Complete Guide to Fundraising Management*, 3<sup>rd</sup> edition, John Wiley and Sons, 2009

**ATTACHMENT C**

**Income Worksheet**

**Income**

Program/Organization:

Time Period:

Income Source or Program	What will happen? (use <input type="checkbox"/> )			Likelihood (use <input type="checkbox"/> )			Projected \$ Amount for this Period		Why	Next Steps
	Increase	Stay the Same	Decrease	Committed	Fairly Certain	At Risk	Best Case	Worst Case		

**Modify the worksheet to best tell your story. Here are ideas:**

- One page for each fiscal year analyzed.
- Organize by program, cost center or income source
- List the line items in the order used on your financial statement
- Make special note of potential changes in discretionary and unrestricted dollars.
- Create a worksheet that ties all the financial projections together just as you would when doing your budget planning.

Source: *The Recession Toolkit*, 2009, permission granted for inclusion in this resource by authors Kathy Shulman and Julia Pierson.

**ATTACHMENT D**  
**FUNDRAISING CASE STATEMENT**

The case statement is an essential component of any fundraising activity. At a minimum, your case statement should include:

**1. Mission of the organization**

- who you are
- why you exist, what need you are serving
- why is your existence important

**2. Goals**

- What is it you want to accomplish over the long term?

**3. Objectives**

- How do you intend to accomplish your goals in the short term?

**Stated in the “Why? What? How? How Much? Who?” format:**

**1. Why?**

- Why is there a need? What is the crisis? What's wrong?
- What will happen if nothing is done?
- What are the underlying causes of the crisis?

**2. What?**

- What is missing from the scene that would address the crisis?
- What program, activities, and/or solutions do you offer?
- What evidence do you have that it will solve the crisis?

**3. How?**

- How do you intend for this solution to come about?
- What needs to be done to make it happen?

**4. How Much?**

- How much will it cost to bring this solution about? This year? Five years?
- What piece of this solution will your organization be taking (if the solution is a larger effort among a group) and what will that piece cost?

**5. Who?**

- Who must take the lead in this effort?
- What makes your organization uniquely suited to lead this effort?

6. What opportunities do you offer the contributor?

The case statement can be presented in many forms:

- a brochure promoting your services or activities
- a letter to prospective donors
- an annual report
- an introductory section of a grant proposal
- orally through speeches and presentations
- website

Source: Maryland Nonprofits Fundraising Readiness Workshop

## ATTACHMENT E

### FUNDRAISING READINESS EVALUATION CHECKLIST

Name of Organization: \_\_\_\_\_

Please complete this checklist about your organization as fully as possible.

#### **1. Organization has strong, effective, committed board of directors.**

- a. \_\_ (1) Each board member makes your organization their primary volunteer time commitment and preoccupation.
- b. \_\_ (1) Each board member makes a significant financial gift to the organization annually.
- c. \_\_ (1) Board leadership has come up through the ranks and have served as board members even prior to their officer positions
- d. \_\_ (1) Board establishes vision and sets realistic goals and objectives for program and fundraising to make the vision real.
- e. \_\_ (1) Board effectively mobilizes membership or constituency around the goals and objectives.
- f. \_\_ (1) Board members are able to articulate the vision or mission and the program as they represent the organization to the broader community.
- g. \_\_ (1) Each board member is active in recruiting new members to the organization.
- h. \_\_ (1) Each board member is able to ask for financial contributions, and does.
- I. \_\_ (1) Each board member understands the budget and its relationship to the program.
- j. \_\_ (1) The board adds or removes board members as needed without long or arduous delays.

1. Total \_\_\_\_\_

#### **2. Organization has broad base of membership or identified constituent supporters.**

- a. \_\_ (4) A number large enough to be significant to the community's leadership.
- b. \_\_ (3) Diverse enough in terms of geography, ethnicity, race, sex, class, to prevent the organization from being politically isolated.

c. \_\_ (3) Active and supportive enough to clearly identify themselves as your members or constituents.

2. Total \_\_\_\_\_

**3. Organization has an active and effective committee system.**

a. \_\_ (4) A continually active system for identifying, recruiting, and placing volunteers into organizationally useful jobs.

b. \_\_ (3) Committee system produces action and results.

c. \_\_ (3) Committee system produces real leadership.

3. Total \_\_\_\_\_

**4. Organization has strong, effective, committed staff.**

a. \_\_ (5) Executive director who embodies and represents the organization both on and off the job.

b. \_\_ (1) Staff which is trained and experienced.

c. \_\_ (1) Staff which supports, trains, and challenges the board, committees, and activists.

d. \_\_ (1) Clear staff goals, objectives, timetables, ways to evaluate and correct their own progress.

e. \_\_ (1) Staff which seeks new opportunities to relate the organization to new persons, organizations.

f. \_\_ (1) Staff which looks for new ways to inject fun into the process of doing the organization's work.

4. Total \_\_\_\_\_

**5. Organization has clear, easily understood, relevant, and effective program.**

a. \_\_ (4) Program which is developed out of a serious analysis of how to move your organization mission forward this year.

b. \_\_ (2) Program which is clear and easy to articulate.

c. \_\_ (2) Program which produces regular and visible evidence of its own effectiveness.

d. \_\_ (2) Track record of substantial accomplishments.

5. Total \_\_\_\_\_

**6. Organization has effective communications.**

- a. \_\_ (4) Regular internal communication of victories, activities, needs, and opportunities to the organization supporters.
- b. \_\_ (3) Effective communication of relevant information between and among the organization sub-parts, board, staff, committees, chapters, membership, constituents, etc.
- c. \_\_ (3) Effective and regular use of the media to inform the broader public.
- d. (4) Website portrays the mission of the organization, lists board members and key staff, programs, ways to volunteer and give, and how and who to contact at the organization

6. Total \_\_\_\_\_

**7. Organization has effective fundraising (development) program.**

- a. \_\_ (3) A trained, experienced Development Director.
- b. \_\_ (3) A strong, active, volunteer, board-led development or fundraising committee.
- c. \_\_ (1) A system for acquiring names.
- d. \_\_ (1) A system for acquiring names and adding them to the development prospect list.
- e. \_\_ (1) A system for asking contributors to increase the amount of their contributions.
- f. \_\_ (1) A system for segmenting donors into groups so that they can be asked by means and for amounts which are appropriate for them.

7. Total \_\_\_\_\_

**8. Organization has realistic budget.**

- a. \_\_ (2) Reliable in terms of enough income and expense categories to carry out the proposed program.
- b. \_\_ (2) Grounded in experience.
- c. \_\_ (2) Grounded in available leadership.
- d. \_\_ (2) Grounded in available activists.
- e. \_\_ (2) Grounded in current opportunities.

8. Total \_\_\_\_\_

**9. Organization does effective fundraising planning.**

- a. \_\_\_ (3) Have an annually updated case statement.
- b. \_\_\_ (3) Have completed a thorough evaluation of past fundraising, including strengths, weaknesses, and recommendations for changes.
- c. \_\_\_ (4) Have a fundraising plan which includes.

- \$\$ goal broken down into sub-goals for each activity and organized into a gift table
- identified leadership for each activity
- identified staff support for each activity
- activities which make sense in terms of the targeted constituency
- activities that make sense in terms of the mission
- activities which build on past efforts
- activities which maximize current opportunities
- realistic use of available resources
- a realistic timetable
- time for celebration and evaluation

9. Total \_\_\_\_\_

**10. Organization has momentum.**

- a. \_\_\_ (5) Infectious spirit and enthusiasm among Board, staff, volunteers, members.
- b. \_\_\_ (5) Generalized belief throughout your organization that it is moving forward toward accomplishment of the program and fundraising goals.

10. Total \_\_\_\_\_

\_\_\_\_\_ **Total #1 through #10**

**If your organization has 50 or more points, you are probably in a readiness mode for fundraising.**

**If your organization has fewer than 50 points, you can still do fundraising, but you just have more work to do in various areas to make it successful.**

Source: Maryland Nonprofits Fundraising Readiness Workshop

## **ATTACHMENT F**

### **ANNUAL CAMPAIGN**

The Annual Campaign or Annual Giving Program is a 365-day-a-year campaign, not a once-a-year event. Annual campaigns bring in funds to meet the ongoing operation needs of the organization.

A single annual campaign can be comprised of a variety of fundraising activities such as:

- Mail appeals
- Phone-a-thons
- Special events
- Major gifts
- Grants

All types of annual giving require an investment of time and resources by your organization. Your organization must be prepared to:

- Research and identify potential donors
- Evaluate the best approach for each group of prospects
- Be willing to dedicate the needed time and resources to the selected projects
- Cultivate prospects throughout the year(s)
- Identify ways to involve prospective donors in your organization
- Do the ask
- Follow through, determine what type of acknowledgement/recognition is appropriate

### **THE ANNUAL GIVING FORMULA**

- Top 10 percent of donors will give approximately 60 percent of funds received.
- Next 20 percent of donors will give approximately 15-25 percent of funds received.
- Remaining 70 percent of donors will give the balance of the funds received.

### **MAIL SOLICITATION**

Soliciting donors through the mail is one of the most frequently used fundraising method. The two major means of conducting mail appeals are in-house mail appeals and direct mail. An organization that embarks upon mail solicitation must be prepared to accurately track the responses to mail appeals, including keeping records of how the person was approached, donation dates, and amounts. It is also important to track all costs of the mailing and compare them to the results so you are able to determine the success of the appeal. Your organization must also have a system for thanking those who give and providing receipts for donations in compliance with the law. (See “Disclose It!” section at the end of this booklet.)

## 1) **In-House Mail Appeals**

This is a very common approach for small and new efforts. It entails using lists that are compiled by the steering committee or board, the volunteers, and staff. These individuals contribute names and contact information for anyone who has had any communication with the organization, contributed time or money, or participated in any activity. They also contribute names of friends, relatives, clients, alumni, etc. Appeals sent to in-house lists are likely to yield better results than direct mail; however, the key to successful mail appeals in general is to follow up and obtain renewed and increased levels of gifts from the donors who respond by mail.

An in-house appeal assumes some familiarity with either the organization or with the person signing the letter. In-house appeals will yield better results if a personal handwritten note is added to the letter before it is mailed. In-house appeals will also yield better results if the envelopes are hand-addressed and if stamps rather than postage meters are used.

## 2) **Direct Mail**

Direct mail refers to soliciting large numbers of prospective donors who are not familiar with your organization or cause. The success of a direct mail campaign will require a considerable long-term commitment from your organization. You must be prepared to:

- Analyze your fiscal situation. Can you afford the time and upfront costs of beginning a direct mail program? It is not unusual for a first "acquisition" mailing to lose money or break even.
- Make a long-term commitment to list development. You must be able to commit to maintaining and refining your mailing list (or hire a person or organization to do it for you). This will include compiling an initial mailing list. This can be done by:
  - trading lists with other organizations
  - purchasing or renting lists from commercial list brokers
  - using business directories or other similar sources
- Eliminate names of people who do not give after receiving a number of mailings.
- Track who gives and in response to which type of mailing.
- Track how much and how often an individual gives.
- Be prepared with a program to increase gifts.
- Create the solicitation package. This includes:
  - the look of the outside
  - the appeal letter
  - the response mechanism/reply envelope or credit card payment method

If you are considering a direct mail campaign, ask yourself whether you have:

- Analyzed your organization's case to determine if it will have appeal to donors when presented in a direct mail format?
- Considered how you will compile or obtain a list of prospective donors who are likely to feel positive about your organization because they know and or have benefited from it?
- Thought about how you will identify an appropriate gift level for the people on your mailing list?
- Created a plan that allows for test mailings?
- Checked state and local laws for registration and/or disclosure requirements?
- Considered who will manage your direct mail campaign? It could be done by:
  - a specialist or consultant, with a verifiable track record of success
  - a staff member with direct mail experience

- Considered the logistics of doing the mailing?
  - printing, folding, labeling
  - bulk mail or first class
  - in-house or mail house
- Thought about how you will keep track of who responds to the mailing?
- Decided what is an acceptable return on your investment of time and money, in the first year and subsequent years?

Results will depend on the effectiveness of both the mailing list and the direct mail package.

Source: Maryland Nonprofits Fundraising Readiness Workshop

## ATTACHMENT G

### TELEMARKETING AND PHONE-A-THONS

Telemarketing, telethons, phone-a-thons, and telephone solicitation are simply phoning someone and asking for a donation or support for your organization. Telemarketing is most successful when calling individuals who know your organization and the work you do or know the person calling them.

The planning and cost analysis is similar to that used in direct mail planning. However, receiving a telephone call is considerably more intrusive than receiving a mail solicitation, so care should be taken not to annoy or alienate the donor public by contacting people unlikely to give.

If you are considering a telemarketing campaign you should consider these questions:

- Does your organization have name recognition?
- Does the organization have cause recognition?
- Is the cause great enough to outweigh telemarketing negatives?
- Does your organization understand the costs associated with this type of campaign?
- Do you have leadership commitment?
- Is the board committed?
- Is the staff behind it?
- Does the leadership believe that the cost of fundraising, energy commitment, and potential are justified?
- What kinds of telemarketing will work for you?
  - volunteer phone-a-thon
  - paid staff phone-a-thon
  - combination of volunteer and paid staff

#### PHONE-A-THON POINTS TO CONSIDER

Volunteer phone-a-thon:

- Volunteers can be successful for limited amounts of time if they really support the cause and if they are well trained.
- Using volunteers can save you money, but there is an opportunity cost? What else could those volunteers be doing for your organization?
- Since phone-a-thons are most successful when the caller knows the person they are soliciting, will your volunteers be willing to bring his/her own Rolodex and makes calls from it?

Paid staff phone-a-thon:

- Do you have the capability to do an in-house managed telemarketing campaign?
- Will your donors respond to contractual vendors (paid callers unrelated to your organization)?
- If you opt for a contractual vendor, do you have someone knowledgeable enough about telemarketing to develop the contract with a vendor and help you avoid the many pitfalls?
- Is your organization familiar with the special registration and disclosure rules applicable to outside, paid fundraisers under state law?

## ATTACHMENT H

### MAJOR GIFTS

The term “major donors” refers to individuals who give considerably more than what your organization considers an average gift. Their gifts are considered “major gifts.”

The key to major gifts is good research and perseverance. Knowing why someone is likely to give to your organization and when is essential.

Before you begin a major gifts program it is helpful if:

- Your fundraising plan includes long-term cultivation of a major gift. Major gifts can take time. Evaluation of major gift programs should be measured in prospects and prospect contacts, in addition to the amount of money raised annually.
- You have a clear case for support.
- You have a giving history for all your donors and have identified prospects for major gifts.
- You have compiled a profile of your prospects including:
  - What is their link to your organization?
  - What is their business or profession?
  - What are their civic and social affiliations?
  - What gifts have they made to other organizations in the past?
- You know who on your board or in your organization has any common link to the person?
- You have an ongoing mechanism to stay in touch with your major donors and prospects such as:
  - Invitations to attend or work on special events
  - Newsletters
  - Periodic notes, outlining organizational accomplishments
  - Invitations to volunteer or participate in the activities of your organization

Source: Maryland Nonprofits Fundraising Readiness Workbook

## ATTACHMENT I

### GRANTS

#### TYPES OF GRANT-MAKING ENTITIES

**Independent Foundations:** (large multi-purpose, special purpose, small family foundations) A fund or endowment designated by the IRS as a private foundation under the law, whose primary function is the making of grants. The assets of most of these foundations are derived from a single source, such as an individual, family, or a group of individuals.

**Community Foundation:** Derives its funds from many donors rather than a single source. Such foundations are usually classified as a public charity and are subject to different IRS laws. They concentrate on a specific geographical area, have a professional staff and administer funds from individual donors.

**Operating Foundation:** An organization that uses its resources to conduct research or provide a direct service. The endowment of these foundations is usually provided by a single source, but they may accept donations from the public. Most operating foundations award few grants to outside organizations.

**Corporate Foundations:** A private, legally independent grant-making organization with close ties to the corporation providing funds. Endowment and annual contributions come to the foundation from a profit-making corporation.

**Corporate Giving Programs:** Set up within a company, generally as part of human relations, marketing or public relations departments. Giving levels are closely related to company profits. Grant seekers often have the opportunity to ask for in-kind contribution, such as employee volunteers, equipment, facilities use, administrative services, and supplies. Decisions are often made by a corporate giving committee.

**Government Sources:** Include federal, state, and local governments. Forms of support include contracts and outright grants. Many federal grants are distributed in the form of contracts for specific services, and may be granted directly or through a sub-grant from state or local government. Federal block grant money is given to cities to distribute to nonprofits for capital projects and programs of major importance. State and local jurisdictions may also award contracts financed by state or local general funds.

#### TYPICAL TYPES OF SUPPORT AWARDS

**Corporations:** Outright gift, corporate matching gift, use of facilities, technical, assistance, employee volunteers, in-kind gifts of equipment, and materials.

**Foundations:** Capital support, continuing support, endowments, fellowship and scholarships, matching or challenge grants, operating support, program support, research support.

**Government Agencies:** Technical assistance, direct loans, loan guarantees, interest subsidies, direct payments (grants), project grants (contracts), donation of property and goods, use of property, facilities, and equipment.

## ATTACHMENT J

### FEDERATED FUNDRAISING ORGANIZATIONS

Federated fundraising includes groups such as the United Way, Combined Health Agencies, the Environmental Fund, the Associated Jewish Community Federation, and others. They are set up to fundraise for several organizations at one time. The money that is raised is then passed on to each of the participating organizations in a manner consistent with the agreed upon contract. Some portion of the money raised may also be granted out to non-participating organizations for special projects or to further the mission of the federation.

Before deciding whether your organization would benefit from a relationship with a federated organization consider:

- Will the agreement with the federation limit your own ability to fundraise in a manner not acceptable to your organization?
- Do donors have an option to designate a recipient?
- Do you get the names of donors who designate your organization?
- What percentage of donations are passed on to the organizations?
- What access do you get to donor lists?

Source: Maryland Nonprofits Fundraising Readiness Workbook

## **ATTACHMENT K**

### **SPECIAL EVENTS**

Special events can be anything from a party to a gala, carnival, concert, roast, fair, sporting event, etc. No matter what the form, special events can:

- Raise public awareness of your organization's mission and the work you do.
- Be a friend-raiser, cultivating new prospects as well as establishing ongoing contact with current donors.
- Provide an opportunity for your donors or prospective donors to have a positive experience helping your organization.
- Raise money for the annual giving program and/or special projects.

#### **Before you consider a special event you should ask:**

- Does the special event fit into your overall fundraising/marketing plan?
- What is the expected cost per dollar raised, as well as the opportunity cost of using the time and energy of a large number of volunteers?
- Do you have sufficient volunteers and staff to plan and carry out the special event? (Special events are extremely time consuming and can become all-consuming. Volunteer leadership and good staff support are essential.)
- Do you have the funds necessary to cover all the expenses should in-kind support not meet your expectations?
- What type of event will attract your target audience? (Unusual or unique events will be most lucrative.)
- What are the best dates and times for your event? Are there other organizations with similar events, at the same time, appealing to the same audience?
- What type of insurance will you need and what will it cost?
- Do you have the money to cover expenses that you are not successful in getting donated?
- What portion of the ticket or admission price will be tax deductible for the contributor? Will this effect attendance?
- How will you evaluate success? Is it: the number of new potential donors, the number of existing donors who attend, the amount of money raised, the amount of media coverage, or a combination of these factors?

## **ATTACHMENT L**

### **PLANNED GIVING**

The term planned giving is used to describe a gift that a contributor arranges to benefit an organization, but which may not be fully available for some time. Planned giving programs are subject to extensive IRS and state regulations and should be researched fully before undertaken.

Examples of planned gifts include:

- Life insurance policies of which an organization is made a beneficiary.
- Wills or bequests in which an organization is left money or other assets.
- Pooled Income Funds – These function similar to a mutual fund. A contributor donates an amount of money or property to a charitable organization, the money is invested, and the contributor gets a share of the earnings.
- Charitable Remainder Trust – A sum of money (or stock, property, etc.) is given to a charitable organization and the donor receives the income from that money for a specified period of time, after which the charitable organization retains the principal.
- Charitable Lead Trust – A sum of money is given to a charitable organization and the organization retains the income generated from that money for a set amount of time (for example until the donor retires). Then the donor receives the income generated from the money for a set amount of time (for example retirement until death) and then the principal goes to the charitable organization.

Source: Maryland Nonprofits Fundraising Readiness Workbook

## ATTACHMENT M

### SUPPORTING ORGANIZATIONS REFERENCE GUIDE

#### INTRODUCTION

Every organization described in section 501(c) (3) of the Internal Revenue Code (IRC) is further classified into either a “private foundation” or into “other than a private foundation” (commonly known as a public charity).

Private foundations typically have a single major source of funding (usually gifts from one family or corporation rather than funding from many sources).

Public charities include:

- Churches, hospitals, qualified medical research organizations affiliated with hospitals, schools, colleges, and universities, and organizations that have an active program of fundraising and receive contributions from many sources, including the general public, governmental agencies, corporations, private foundations, or other public charities.
- Organizations that receive income from the conduct of activities in furtherance of the organization’s exempt purposes.
- Organizations that actively function in a supporting relationship to one or more of the organizations described above. Section 509(a)(3) of the IRC refers to these public charities as “supporting organizations.”

Supporting organizations were created by Congress in 1969, while recognizing that it is often beneficial and prudent for public charities and their supporters to place certain assets or activities in a separate legal entity.

#### Number and Major Areas of Work of Supporting Organizations, 2003-(Dollars in millions) (See Sources at the end, number 1)

	Number		Total revenue		Total assets		Net assets	
Arts, culture, and humanities	1,441	4.7%	\$1,272	1.7%	\$7,110	2.4%	\$6,184	3.2%
Education	8,077	26.4%	11,848	15.9%	52,679	17.5%	38,699	20.2%
Environment	497	1.6%	573	0.8%	3,185	1.1%	2,126	1.1%
Health	5,769	18.9%	41,206	55.4%	126,582	42.0%	64,861	33.9%
Human services	5,218	17.1%	7,334	9.9%	23,495	7.8%	13,800	7.2%
Other	9,564	31.3%	12,103	16.3%	88,170	29.2%	65,935	34.4%
<b>Total</b>	<b>30,566</b>	<b>100.0%</b>	<b>74,337</b>	<b>100.0%</b>	<b>301,220</b>	<b>100.0%</b>	<b>191,604</b>	<b>100.0%</b>

Source: National Center for Charitable Statistics Core Public Charity File, Fiscal Year circa 2003.  
Note: Supporting organizations include all organizations that identified themselves as supporting organizations in either their initial IRS Form 1023 application for exemption or on their most recent annual IRS Form 990.

It should be noted that, based on IRS Statistics of Income data for 2009, there are 1,238,201 active nonprofit charitable organizations recognized by the IRS under section 501(c)(3), of which only 7,556 organizations self-identified as Type III supporting organizations. Based on the same data, only 4,438 organizations self-identified as Type III supporting organizations that are not functionally integrated.

## **WHO SHOULD BE PARTICULARLY CONCERNED ABOUT THESE ISSUES?**

As explained in more detail below, these issues should be of particular concern to:

- Type III supporting organizations
- The following types of institutions making donations or grants to Type III supporting organizations:
  - charitable trusts with institutional trustees
  - private foundations
  - sponsoring organizations that maintain donor-advised funds

## **PRIVATE CHARITY STATUS VERSUS PUBLIC CHARITY STATUS**

In most circumstances, a public charity status is preferable to a private foundation status. In addition to the basic rules governing public charities, private foundations laws generally impose an excise tax on their investment income, on self-dealing between the private foundation and its substantial contributors, and on some business holdings. In addition, private foundations are required to make minimum annual distributions, and their operations are restricted in other ways.

Donors receive more generous tax deductions when they make gifts to public charities rather than to most private foundations (for example, higher maximum deductibility limit and fair market value deduction).

However, some charities accept private foundation status because their funding is unavoidably dependent on a single individual, family, or corporation, or because their donors prefer the closer control that can be provided by private foundations.

## **CONCERNS ADDRESSED BY THE PENSION PROTECTION ACT OF 2006**

The Pension Protection Act of 2006 modified the statutory scheme applicable to supporting organizations to address concerns that some supporting organizations were being used to inappropriately benefit private interests. The understanding of such concerns may facilitate the understanding of the complexities of the current regulations affecting supporting organizations.

In theory and as public charities, supporting organizations could be in the position of helping a donor commit tax fraud if they launder a gift so that the donor can take advantage of more generous tax deductions.

There was concern that supporting organizations were growing at a rapid pace, and that their growth was driven by their use as tax shelters for the wealthy. Unlimited tax deductible contributions to tax exempt supporting organizations that are controlled by the supported organization management, and are not required to make minimum annual distributions, could take their role from that of a private foundation (the best of which would have the highest payout rates with minimum expenses) to that of an endowment or investment manager (the best of which would have the higher increases in their net assets).

The IRS has issued extensive guide sheets inquiring about supporting organization arrangements that lend themselves to private benefit abuses, including situations where a supporting organization makes loans, grants, or compensation payments to or for the benefit of donors or donors' families or businesses. The guide sheets also inquire about situations where the

supporting organization is a recipient of closely held stock, personal residences, partnership interests, sole proprietorships, or insurance policies, as these asset types may be manipulated for the benefit of donors or donors' families and businesses. The full text of these guide sheets and explanations can be found in the IRS website: [http://www.irs.gov/irm/part7/irm\\_07-020-007.html](http://www.irs.gov/irm/part7/irm_07-020-007.html)

It should be noted that, in 2005, the Urban Institute released a report noting that there was insufficient support to document claims by some that supporting organizations growth was being driven by their use as tax shelters for the wealthy.

## **QUALIFYING AS A SUPPORTING ORGANIZATION**

Supporting organizations are among the many charitable vehicles that donors can utilize to achieve their specific philanthropic goals. As with all charitable vehicles, supporting organizations have unique characteristics that make them more effective and efficient than other options in certain circumstances. Community foundations, colleges, universities, nonprofit healthcare organizations, international organizations, and numerous other charities rely on gifts made possible through supporting organizations to carry out their charitable work.

Of course, supporting another public charity is not enough by itself to warrant status as a public charity. Supporting organizations must meet several tests: (1) they must be organized and operated exclusively for the benefit of specified publicly supported organizations (generally public charities); (2) they must not be controlled, directly or indirectly, by disqualified persons (as defined in section 4946 of the IRC, other than foundation managers); and (3) they must have one of three specific types of structural relationship with their publicly supported organizations, ensuring that the supported organization is effectively supervising or “paying particular attention” to the operations of the supporting organization. These three types of relationship determine the classification of a supporting organization as Type I, II or III. This distinction is important because additional restrictions apply to certain grants made to some Type III supporting organizations.

## **THE THREE TYPES OF SUPPORTING ORGANIZATIONS**

As indicated above, the IRS has issued extensive guide sheets establishing its criteria for reviewing applications for recognition of exempt status for supporting organizations. These criteria include sections detailing an organizational test, an operational test, a relationship test, and a disqualified person control test.

In addition, the IRS guide sheets identify transactions, assets, and other situations that raise red flags because of concern that a supporting organization may be used to overly benefit private interests. They also indicate that the presence of one or more of the listed factors is not determinative, and that all factors and circumstances must be considered in determining whether an organization meets the requirements for tax exemption and/or supporting organization status.

### **Type I**

Type I supporting organizations are defined as supporting organizations that are “operated, supervised or controlled by one or more” publicly supported organizations. Basically, these are supporting organizations that are under the direct control of the supported organization. This

relationship is equivalent to a parent-subsidiary relationship. At least a majority of the board of the supporting organization must be appointed by the publicly supported organization.

## **Type II**

Type II supporting organizations are defined as supporting organizations that are “supervised or controlled in connection with one or more” publicly supported organizations. These supporting organizations are under common control with the supported organization (also known as “brother/sister” organizations). In this type of supporting organization relationship, a majority of the persons who control or manage the supported organization also control or manage the supporting organization

## **Type III**

Type III supporting organizations are defined as supporting organizations that are “operated in connection with” one or more publicly supported organizations. These supporting organizations are not necessarily related to the supported organizations, and operate with a greater degree of independence from the supported organization.

A Type III supporting organization can be either “functionally integrated” or “non-functionally integrated” with their supported organizations by virtue of their carrying out activities that directly perform the functions of the supported organizations, and those that are not. This latter category is subject to further stringent requirements, including a payout requirement and limitations on excess business holdings. It also requires private foundations and donor-advised funds to exercise expenditure responsibility on grants to non-functionally integrated Type III supporting organizations.

Type III supporting organizations are prohibited from supporting any supported organization not organized in the United States.

## **DETERMINING THAT A TYPE III SUPPORTING ORGANIZATION IS “FUNCTIONALLY INTEGRATED” OR “NON-FUNCTIONALLY INTEGRATED”**

Under the IRS regulations that became effective on December 28, 2012, all Type III supporting organizations must satisfy a “responsiveness test”, a “notification requirement” and an “integral part test.” The integral part test is used to determine whether the Type III supporting organization is “functionally integrated” or “non-functionally integrated.”

- a) **Responsiveness test:** Type III supporting organizations, including those organized as charitable trusts with institutional trustees, meet the responsiveness test if they are responsive to the needs or demands of their supported organizations. This can be demonstrated by meeting one of the following three criteria: (1) the supported organization appoints or elects one or more of the officers, directors, or trustees of the supporting organization; (2) one or more members of the governing body of the supported organization serve as officers, directors, or trustees of, or hold other important offices in, the supporting organization; or (3) the officers, directors, or trustees of the supporting organization maintain a close continuous working relationship with the officers, directors, or trustees of the supported organization. In addition, as a result of one of these three criteria being satisfied, the supported organization has to have “a significant voice” in the investment policies of the supporting organization, the timing and the manner of making

grants, the selection of the grant recipients of the supporting organization, and in otherwise directing the use of the income or assets of the supporting organization. Charitable trusts can satisfy the responsiveness test if: (1) if it is a charitable trust under State law; (2) each specified supported organization is a named beneficiary under the charitable trust's governing instrument; and (3) each beneficiary organization has the power to enforce the trust and compel an accounting under State law.

For organizations supporting one or more supported organizations before November 20, 1970, additional facts and circumstances can also be taken into account to establish compliance with the responsiveness test, such as an historic and continuing relationship between the supporting organization and its supported organization(s).

**b) Notification requirement**

All Type III supporting organizations are required to provide an annual notification to each of their respective supported organizations. The annual notification must include the following documents:

- (1) a written notice addressed to a "principal officer" of the supported organization (a principal officer includes any person who has ultimate responsibility for supervising the management, administration, or operation of the supported organization; implementing the decisions of its governing body; or managing its finances);
- (2) a copy of the supporting organization's most recently filed form 990 (noting that names and addresses of contributors may be redacted); and
- (3) a copy of the supporting organization's governing documents, such as articles of incorporation and bylaws, including any amendments (noting that such copies need to be provided only in the first notification and after that only when revised).

The regulations provide that the annual notification must be postmarked or electronically transmitted no later than the last day of the fifth month following the end of the supporting organization's tax year (e.g. by May 31 for a calendar year supporting organization). For tax years including December 28, 2012, however, the regulations include some transitional relief by providing that the annual notification must be postmarked or electronically transmitted by the later of the last day of the fifth month following the end of that tax year; or the due date (including extensions) of the supporting organization's Form 990 for that tax year.

**c) Integral part test**

This test requires a Type III supporting organization to maintain a "significant involvement" in the operations of one or more supported organizations that are dependent upon the supporting organization for the type of support that it provides. There are two alternative ways to meet the integral part test: (1) the "but for" test; or (2) the payout test.

- **The "but for" test:** is satisfied if the activities engaged in by the supporting Type III organization for or on behalf of the supported organizations are activities to perform the functions of, or to carry out the purposes of, such organizations, and, but for the involvement of the supporting organization, would normally be engaged in by the supported organizations themselves.
- **The payout test:** requires a supporting Type III organization to: (1) make payments of substantially all of its income to or for the use of one or more supported organizations; (2) provide enough support to one or more supported organizations to ensure the

“attentiveness” of such organization(s) to the operations of the supporting organization; and (3) pay a substantial amount of the total support of the supporting organization to those supported organizations that meet the attentiveness requirement. The phrase “substantially all of its income” has been interpreted to mean at least 85% of adjusted net income.

### **FUNDRAISING AND GRANTMAKING: DISFAVORED ACTIVITIES**

Under the IRS regulations that became effective on December 28, 2012, several types of activities commonly found in Type III organizations, such as fundraising, grantmaking (whether to the supported organization or to third parties), and investing and managing nonexempt use assets, are not considered to be activities that directly further the exempt purposes of a supported organization. Consequently, a Type III organization that is established to fundraise or manage an endowment for a supported organization or to make grants (with the exception of individual grants, scholarships, and other payments made under certain circumstances) will not qualify as functionally integrated, unless it is the parent of the supported organization or its supported organization is a governmental unit.

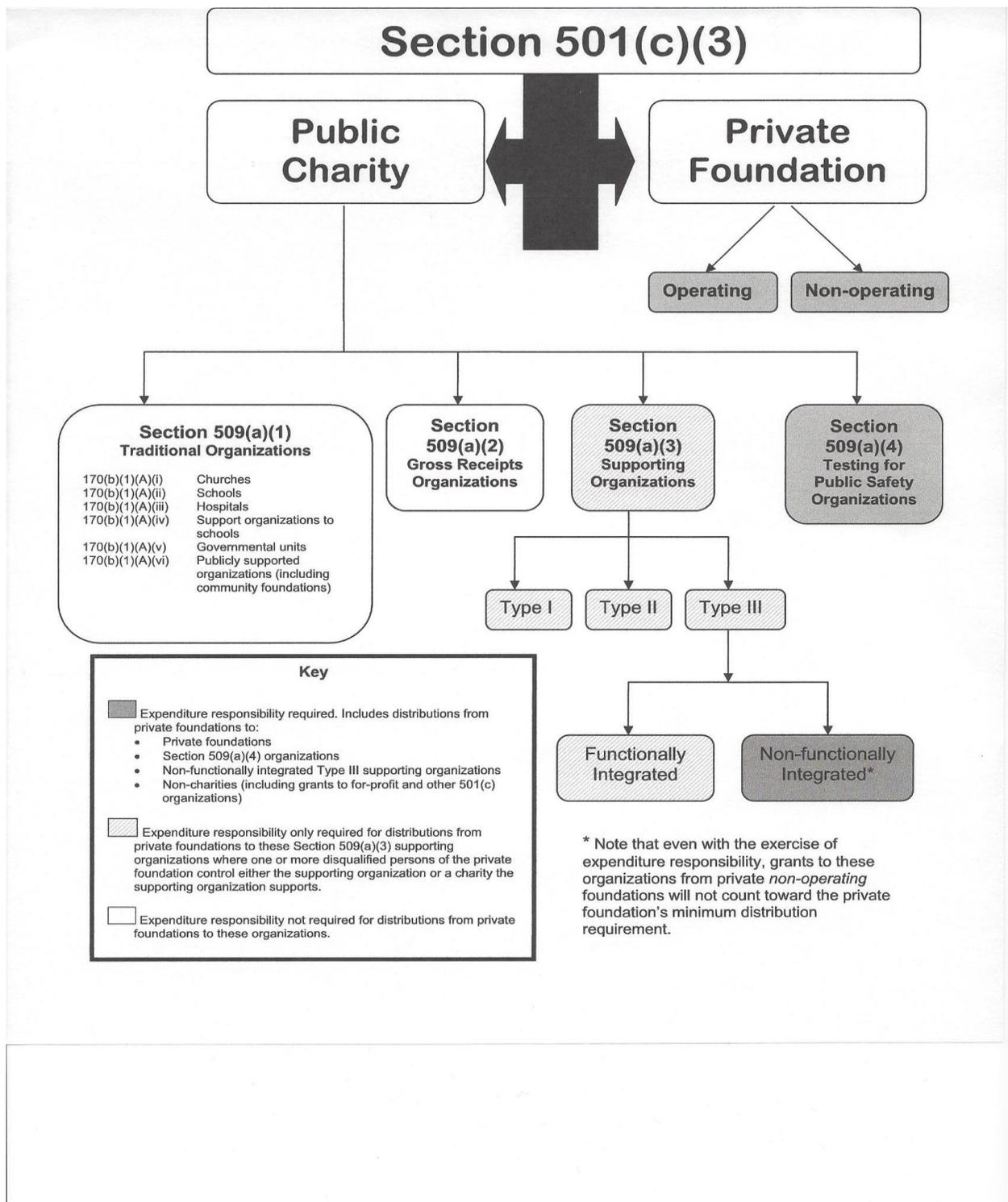
### **HOW CAN YOU TELL THAT A PUBLIC CHARITY IS A SUPPORTING ORGANIZATION?**

There are several documents that can be reviewed to determine whether an organization is a supporting organization:

- IRS Determination Letter: should say something similar to “you are not a private foundation within the meaning of Section 509(a) of the IRC, because you are an organization described in Section 509(a) (3).” Section 509(a) (3) of the code covers supporting organizations.
- Form 990: Part IV of Schedule A to the 990 requires each organization to check a box indicating why it is not a private foundation. Supporting organizations are required to check box 13 to indicate the basis of their public charity status.
- IRS Master File: organizations that are tagged as Foundation Code 17 in the Exempt Organization Master Listing are supporting organizations.

### **IRS FUTURE GUIDANCE**

The IRS reserved several provisions for further guidance, including the definition of “control” for purposes of these provisions, an amendment to the responsiveness test to clarify that a supporting organization must be responsive to all of its supported organizations, the definition of “parent,” how supporting organizations can qualify as functionally integrated by supporting a governmental entity, and what expenditures will count toward the distribution requirement.



Acknowledgements: Special thanks to Francisco Ramirez for his excellent work on this reference guide on supporting organizations.

## Sources

1. **The Scope and Activities of 501 (c) (3) Supporting Organizations**, by Thomas H. Pollak and Jonathan D. Durnford, National Center for Charitable Statistics at the Urban Institute, May 31, 2005.
2. **Expenditure Responsibility Flowchart for Private Foundations. Understanding which grants to Section 501 (c) (3) organizations require expenditure responsibility**, Council on Foundations.
3. **Section 509 (a) (3) Supporting Organizations**, IRS (Page Last Reviewed or Updated: 2013-06-28).
4. **Part 7. Rulings and Agreements-Chapter 20. Exempt Organizations Determination Letter Program-Section 7. IRC 509 (a) (3) Supporting Organizations Guide Sheets**, IRS 04-11-2008.
5. **Internal Revenue Bulletin: 2013-11, March 11, 2013, EXEMPT ORGANIZATIONS**, IRS.
6. **Internal Revenue Bulletin: 2013-11, March 11, 2013, REG-155929-06**, IRS.
7. **Internal Revenue Bulletin: 2013-11, March 11, 2013, T. D. 9605, Payout Requirements for Type III Supporting Organizations That Are Not Functionally Integrated**, IRS.
8. **Annual Filing Requirements for Supporting Organizations**, IRS (Page Last Reviewed or Updated: 28-Jun-2013).
9. **Reliance Criteria for Private Foundations and Sponsoring Organizations that Maintain Donor Advised Funds**, IRS (Page Last Reviewed or Updated: 28-Jun-2013).
10. **Part 7. Rulings and Agreements, Chapter 26. Private Foundations Manual, Section 1. Introduction to Private Foundations and Special Rules Under IRC 508**, IRS, (02-01-1999).
11. **Life Cycle of a Private Foundation**, IRS (Page Last Reviewed or Updated: 22-Mar-2013).
12. **Life Cycle of a Private Foundation-Inurement/Private Benefit**, IRS (Page Last Reviewed or Updated: 30-Apr-2013).
13. **Life Cycle of a Private Foundation-Political and Lobbying Activities**, IRS (Page Last Reviewed or Updated: 30-Apr-2013).
14. **Private Foundation Taxable Expenditures: “Taxable Expenditures” Defined**, IRS (Page Last Reviewed or Updated: 2013-04-30).
15. **Private Foundation Excise Taxes**, IRS (Page Last Reviewed or Updated: 30-Jan-2013).
16. **Tax on Net Investment Income**, IRS (Page Last Reviewed or Updated: 22-Mar-2013).
17. **Taxes on Self-Dealing: Private Foundations**, IRS (Page Last Reviewed or Updated: 07-Aug-2013).
18. **Taxes on Failure to Distribute Income-Private Foundations**, IRS (Page Last Reviewed or Updated: 2013-04-30).
19. **Taxes on Excess Business Holdings**, IRS (Page Last Reviewed or Updated: 26-Nov-2012).
20. **Taxes on Jeopardizing Investments**, IRS (Page Last Reviewed or Updated: 30-Apr-2013).
21. **Taxes on Taxable Expenditures-Private Foundations**, IRS (Page Last Reviewed or Updated: 2012-11-26).

22. **Private Foundation Taxable Expenditures: “Taxable Expenditures” Defined**, IRS (Page Last Reviewed or Updated: 2013-04-30).
23. **Frequently Asked Questions: HR 4**, Council on foundations.
24. **Unusual Grants: An Online Legal Guide for Public Charities**, by Jane C. Nober, Council on Foundations.
25. **Grants from Private Foundations to Supporting Organizations after the Pension Protection Act of 2006**, Council on Foundations.
26. **Supporting Organizations**, Issue Paper, Council on Foundations, January 2006.
27. **Talking Points on Specific Issues**, District Days, August 1-September 2, 2005, Council on Foundations.
28. **Support Organization**, LDS Philanthropies, 2013.
29. **Public Charity Status under Internal Revenue Code Section 509 (a) (3): The Type I Supporting Organization**, December 2010, Adler & Colvin.
30. **IRS Regulations for Type III Supporting Organizations**, by Frances Emmeline Babb, Celia Roady, Matthew R. Elkin, Alexander L. Reid, Kimberly M. Eney, Edward T. Chaney, Caroline W. Waldner, Tax Practice, Morgan, Lewis & Bockius, published on 01/29/2013.
31. **IRS Final and Temporary Regulations for Type III Supporting Organizations: Notification Requirement and Responsiveness Test**, Quarles & Brady LLP, January 2013.
32. **What is the difference between a private foundation and a public charity?** , Grant Space, Knowledge Base, Foundation Center, 2013.
33. **Non-Private Foundations, Statutory Framework**, CPEasy, Bisk Education, Inc., 2013.
34. **26 USC § 509-Private foundation defined**, Cornell University, 2013.
35. **26 CFR 1.509(a)-4-Supporting organizations**, Cornell University, 2013.

Standards for Excellence Institute, 2014.