



**Stronger South Dakota**  
**Lunch and Learn Series 2020**

Grantmaking and  
Charitable Purpose

- Participants will be put on mute once the call begins
- Staff will be monitoring the chat room, should you have a question during the presentation
- We have reserved time at the end for questions
- The meeting will begin soon
- We will record and make the event available to view.

# Overview



1. **Karly Winter, SDCF Operations/Compliance Manager**
  - IRS Charitable purpose definition and Expenditure Responsibility
  - Questions?
2. **Ginger Niemann, SDCF Senior Program Officer**
  - SDCF Grantmaking Programs and addressing COVID 19 Needs
3. **Gayle Wookey, Greater Clark Area Foundation – Utilization of Matching Funds Program**

Questions?



# Participant Intros

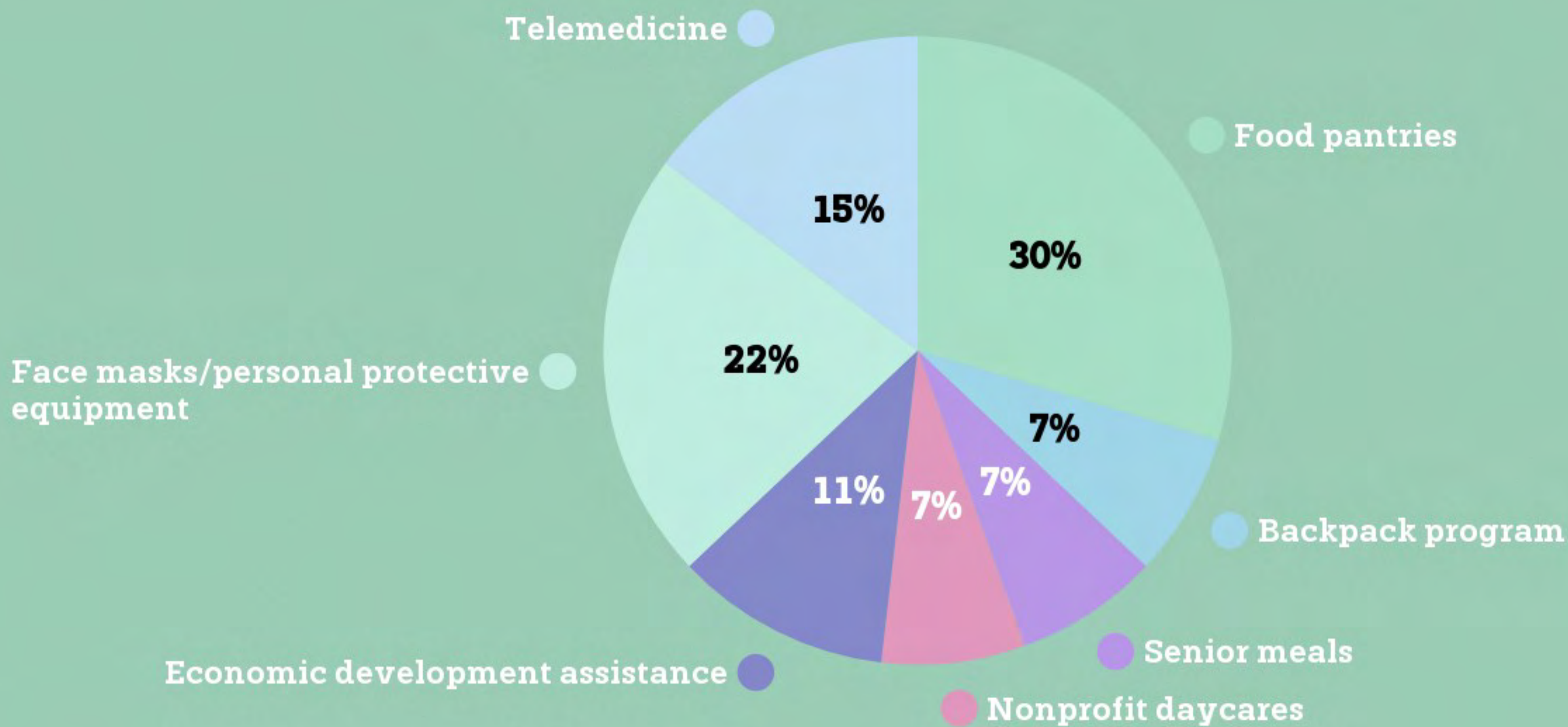
Please share your name, community and favorite Thanksgiving pie.

## POLL

Visit [www.menti.com](https://www.menti.com) and type the **CODE:** 38 07 15 8

What areas has your community seen increased need due to COVID-19?

# Select any or all areas in which your community has seen increased need due to COVID-19.





## Stronger South Dakota Lunch and Learn Series 2020

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### Determining Charitable Purpose Expenditure Responsibility Fiscal Sponsorship

Karly Winter, J.D.  
Operations and Compliance Manager  
South Dakota Community Foundation

# Overview



1. What is charitable purpose and why does it matter?
2. Nonprofit v. Charitable
3. IRS-defined Charitable Purposes
4. What are the options for granting outside of 501c3?
  - Obtaining 501c3
  - Expenditure Responsibility
  - Fiscal Sponsorship
5. Questions and feedback

# What is Charitable Purpose?

Charitable purpose is what sets a 501(c)(3) nonprofit apart from other nonprofits.

A 'term of art' defined by the IRS.



# Nonprofit v. Charitable

## What is the difference?

	Nonprofit Org	Charitable Org
Definition	An entity formed for purposes other than making a profit and which no income is used for individual or private benefit	A type of nonprofit: uses the same definition, but has met additional IRS requirements as to purpose in order to qualify for special tax treatment (exemption)
Tax-exempt	Sometimes	Yes
Who designates?	Secretary of State	IRS
Governing law	State (largely)	Federal (largely)

**See also: EIN (Employer Identification Number)  
a.k.a – tax ID number**

# Another way to look at it . . . .



# Why does it matter?

- ☐ Charitable purpose determines eligibility for an org's 501c3 verification and also whether a grant can be made for its specified purpose
- ☐ SDCF is a 501c3 charitable organization
- ☐ SDCF can only grant to other 501c3 verified organizations (note: exception for charitable purposes)
- ☐ Only donations to 501c3 verified organizations can result in a tax deduction
- ☐ If you can identify a charitable purpose for your grant, you will avoid a lot of extra work (i.e. headache)!

A photograph showing four hands of different skin tones (dark brown, light brown, and two shades of tan) clasped together in a supportive grip on a dark, textured wooden surface. The image is partially obscured by a white, torn-paper-like border on the right side.

# So...what IS a charitable purpose?

The IRS definition includes 8 categories:

- Religious
- Scientific
- Testing for public safety
- Literary
- Educational
- Fostering national or international amateur sports competitions
- Preventing cruelty to animals or children
- Charitable (generally)

The background image shows the interior of a large, ornate church. The architecture features high, vaulted ceilings with exposed wooden beams and a series of pointed arches. Large, colorful stained glass windows line the right side of the nave, allowing light to filter through. Rows of dark wooden pews are arranged on the floor, leading towards the altar area in the distance. The overall atmosphere is solemn and historic.

# Religious

To qualify as a religious organization for tax-exempt purposes, two basic requirements:

1. Beliefs of the organization must be **sincerely held, AND**
2. Practices and rituals associated with the org's religious beliefs or creed **aren't illegal or contrary to clearly defined public policy**

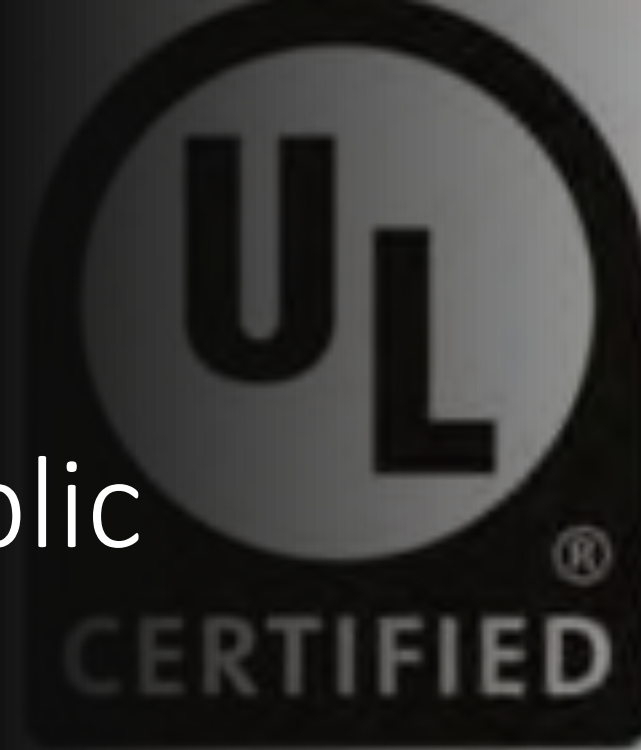
Examples: churches, conventions of churches, missions, integrated auxiliaries of churches, institutions of religious instruction

# Scientific

- Think scientific research
- Work done in the public interest
- Results must be made available to the public
- Examples:
  - University studies
  - Studies published in medical journals
  - Economic modeling
  - Agriculture studies
  - Climate studies



# Testing for Public Safety



- Rarely used category
- *Testing* for public safety rather than *promoting* public safety
- Traditional public safety nonprofits are usually classified by IRS as 501(c)(4) orgs
- Org must test finished products, ingredients or components
- Examples: Consumer Reports and Underwriter's Laboratories



Poor



Fair



Good



Very Good



Excellent



## Literary

- Another limited-use category
- More likely to qualify as 'educational'
- Must be able to show IRS how operation furthers an exclusively charitable purpose
- Examples: Religious publishing houses and college bookstores

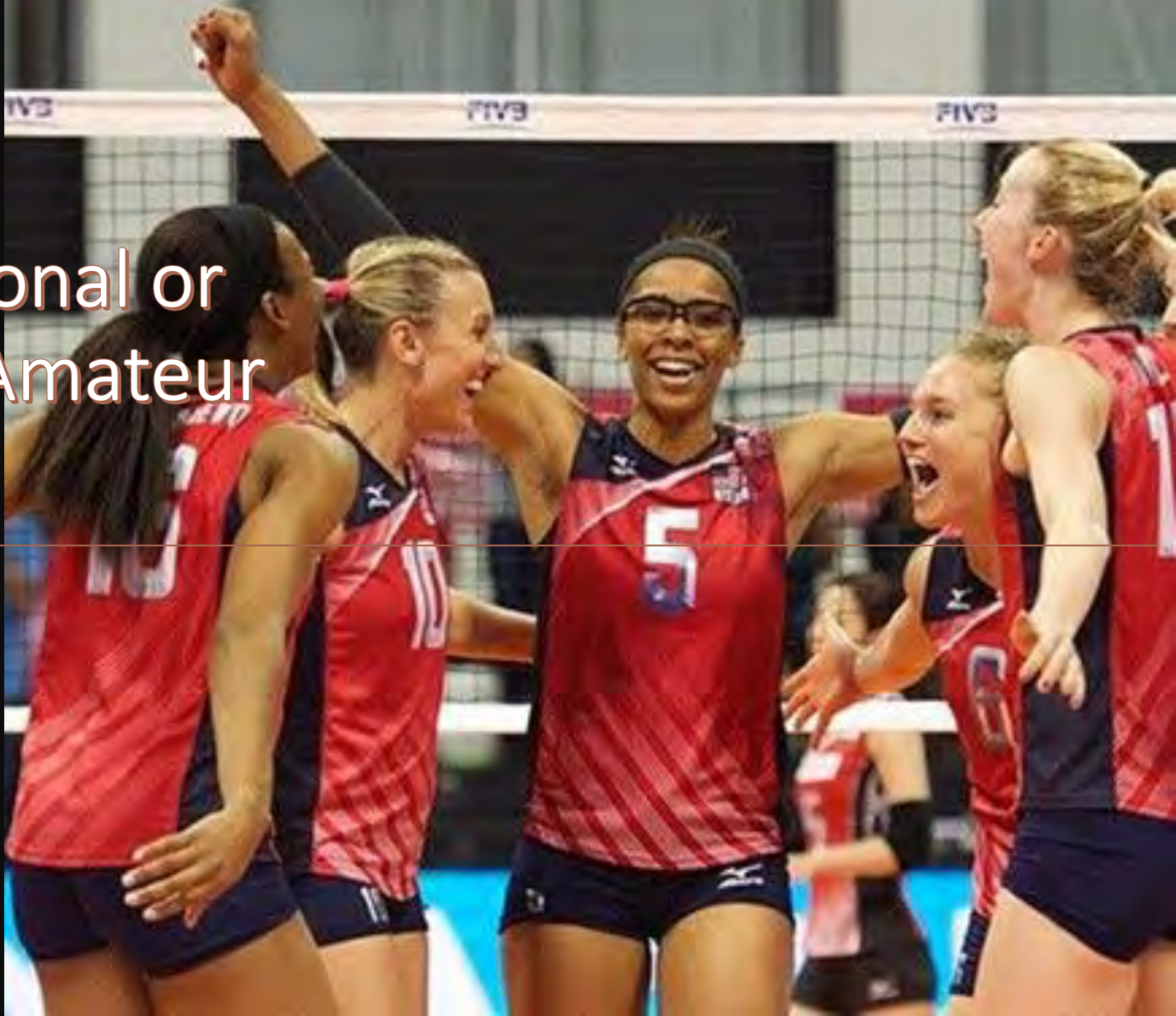
# Educational

- A much more widely-used category
- Covers broad range of possibilities
- Two IRS requirements:
  - 1) Instruction or training of **individuals** for the purpose of **improving or developing their capabilities**; OR
  - 2) Instruction of the **public** on subjects **useful to individuals** and **beneficial to the community**
- **Examples:**
  - Primary/secondary school
  - College, tech school
  - Public discussion groups, forums, panels, lectures
  - Museum, zoo, planetarium
  - Symphony orchestra
  - Alumni associations
  - Children's sports leagues
  - Daycares (specifically-granted status)



# Fostering National or International Amateur Sports

- A very narrow category
- Large-scale sports with *at least* regional competition
- Think Olympic feeder competitions
- Examples:
  - USA Volleyball
  - USA Cycling



# Prevention of Cruelty to Children or Animals

- Geared toward the general safety or welfare of children and animals
- Most children's orgs are 'educational'
- Examples:
  - ASPCC (& corresponding state orgs – NYSPCC)
  - Children's Home Society, etc.
  - Local Child Protection Teams (through DSS)
  - ASPCA
  - World Wildlife Fund (WWF)
  - Local humane societies
  - Endangered species habitat preservation groups



# Charitable

- Confusing, but think of it as charitable *generally*
- A more frequently used category
- “Catch-all” category
- IRS breaks down further:
  - Relief of the poor or underprivileged
  - Advancement of religion
  - Advancement of education or science
  - Erecting or maintain public buildings, monuments, or works
  - Lessening the burdens of government
  - Lessening neighborhood tensions
  - Eliminating prejudice and discrimination
  - Defending human and civil rights secured by law
  - Combatting community deterioration and juvenile delinquency



# Watch out for . . . !!!

- Orgs that look like they are charitable but are not 501(c)(3):
  - Civic leagues (Volunteer Fire Depts, Rotary Club, etc.) . . . . . 501(c)(4)
  - Labor and agricultural unions (United Autoworkers, United Steelworkers, etc.) . . . . . 501(c)(5)
  - Business/trade associations (Chamber of Commerce, Economic Development) . . . . . 501(c)(6)
  - Social and recreational clubs (fraternities/sororities/country clubs, etc.) . . . . . 501(c)(7)
  - Cemetery companies/associations . . . . . 501(c)(13)
  - Organizations of members of the armed forces (Post, Legion, etc.) . . . . . 501(c)(19)

\*\*Some of these orgs have their own foundations that operate as charities.



# What happens if there is no 501(c)(3)?

## Three options:

- Get verified(!)
- Expenditure Responsibility
- Fiscal Sponsorship

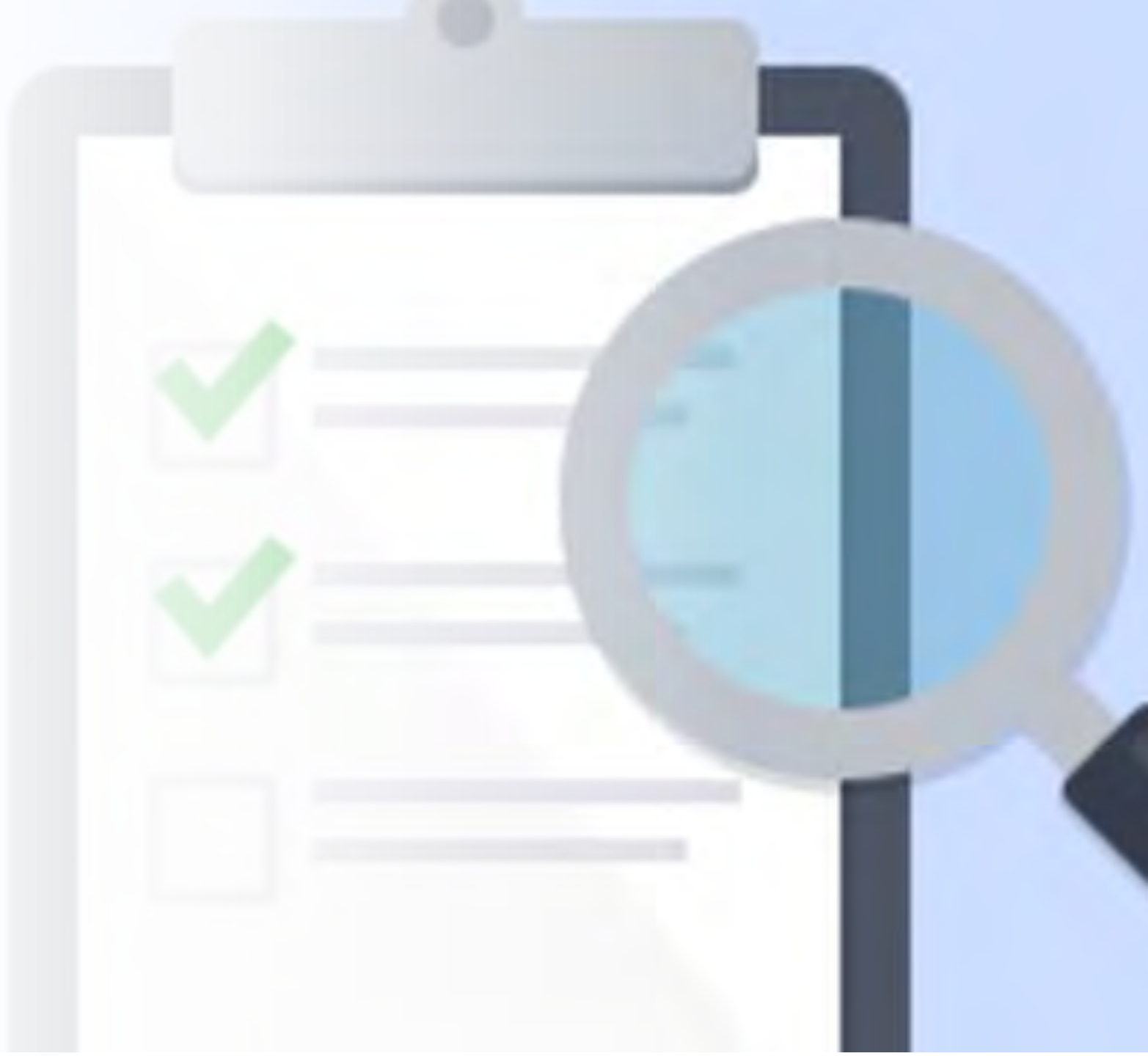


## Get verified by the IRS as 501(c)(3)

- For small organizations, not too difficult a process
- Unlocks opportunities for other grants
- Not as expensive as some think
- Wait-time is no longer prohibitive
  - 2-6 weeks for the short form (1023-EZ)

Find at:

<https://www.irs.gov/instructions/i1023ez>



# Expenditure Responsibility

*“Expenditure responsibility is the federally mandated procedure that a private foundation – and some public charities – must follow for any grant made to an organization that is not a public charity.”*

--- Council on Foundations Legal Compendium





What does  
that mean?

A foundation can make a grant to any type of legitimate organization anywhere in the world (even to a casino in Monte Carlo) so long as the grant is **strictly for charitable purposes** and the foundation is prepared to take on the additional due-diligence requirements (i.e. expenditure responsibility).

# Organizations NOT requiring E.R.

1. Most 501(c)(3) public charities, including those qualified under 509(a)(1) and 509(a)(2)\*\*
  - 509(a)(4) orgs (testing for public safety) ALWAYS require expenditure responsibility
2. Most section 509(a)(3) supporting organizations (so long as not controlled by a disqualified person)
3. Grants from one donor-advised fund to another, or to the fund's sponsoring organization
4. Units of government (foreign and domestic)\*\*
5. International orgs designated by executive order (Red Cross International, United Nations, etc.)
6. Exempt private operating foundations (operating foundations in existence prior to Jan. 1, 1983)
7. All private operating foundations (if the grant maker is a sponsoring org making grants to donor-advised funds)

# When to use E.R.

1. Tax-exempt orgs not classified under 501(c)(3), including:
  - 501(c)(4) – Social Welfare Orgs: Volunteer FD, Rotary Club, AARP, Americans for Prosperity, Colbert Super PAC, NRA
  - 501(c)(5) – Labor Unions: United Steelworkers, National Education Association, National Assoc. of Letter Carriers
  - 501(c)(6) – Trade Associations: Chamber of Commerce, Real Estate Board
  - 501(c)(10) – Fraternal orders: Shriners, Masons, Order of the Eastern Star (Basically, orgs operating under lodge system)
  - 501(c)(13) – Cemetery companies: operated exclusively for benefit of members (not for profit)
  - 501(c)(19) – Veteran's groups: VFW, National Guard Association, American Legion
2. Private nonoperating foundations (for example, Bill and Melinda Gates Foundation, or Coca Cola Foundation)
3. Private operating foundation if the grant maker is a private foundation

There are more categories, but it really gets into the weeds . . .

# Fiscal Sponsorship

If expenditure responsibility is for some reason not an option, or there is a natural community partner for an organization, fiscal sponsorship may be used.

Fiscal sponsorship is when grant money is doled out to a 501c3 organization who then regrants the money to a non-501c3 organization for a charitable purpose. The FS agrees to oversee that the money is used appropriately, and all legal guidelines are followed.



# Questions, comments, concerns?

- Karly Winter, J.D.
- Operations & Compliance Manager
- Pierre Office
- 605-224-1025
- [kwinter@sdcommunityfoundation.org](mailto:kwinter@sdcommunityfoundation.org)



# South Dakota Community Foundation

GRANT PROGRAMS



**SOUTH DAKOTA**  
COMMUNITY FOUNDATION

# Grant Programs

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✦ **South Dakota Fund**

✦ **Community Innovation Grant**

✦ **Nonprofit Savings Accounts**

✦ **Community Savings Accounts**

# Who can apply?

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- ✦ **Nonprofit or charitable organizations in South Dakota**

- ✦ **Fiscal Sponsor**

- ✦ **Verified Tax ID # as defined by the IRS**

- ✦ **501(c)(3) Status**

- ✦ **Projects must take place in South Dakota**

# How to apply?

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- ✦ **Access grant program guidelines and criteria on our website:**  
<http://sdcommunityfoundation.org/for-nonprofits/>
- ✦ **Grants are submitted through our on-line grant portal, eGrant:**  
<https://sdcommunityfoundation.egrant.net>
  - ✦ **Create a Login and Password**
  - ✦ **One per organization**
- ✦ **Grant programs are found under “Opportunities”**
  - ✦ **Save often**

# Reprioritization of Grant Programs

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✦ *In March we reprioritized our grant programs to focus on Coronavirus and its impact on nonprofit organizations and those you serve.*

- We have set aside many of our traditional Grantmaking Guidelines during this time.
- We will only be accepting applications in eGrant through our [South Dakota Fund Grant](#) program.
- All requests should focus on your organization's efforts to address issues brought about by the Coronavirus.
- Answer each question as it relates to the impact the Coronavirus is having on your organization.

# South Dakota Fund Grant Program

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## *Reprioritized for Coronavirus Efforts 2020*

The South Dakota Fund is our unrestricted fund that addresses the vital and diverse needs in South Dakota.

✦ **Areas of Need:** Culture, Economic Development, Education, Health, Human Services and Financial Literacy

✦ **Grant Size:** \$2,000 - \$20,000 *Remains the same*

✦ **Matching Funds:** Grants, Fundraisers, Contributions, In-kind

✦ **Deadlines:** Rolling; Letter of Inquiry/Application *Remains the same*

# South Dakota Fund Grant Program

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## ✦ **Examples of Grants Awarded:** *(Coronavirus Related Efforts)*

- ✦ Basic Human Needs: food security, shelter, mental health assistance
- ✦ Personal Protective Equipment (PPE)
- ✦ CDC Supplies
- ✦ Distance Learning
- ✦ Telemedicine
- ✦ Technology
- ✦ Equipment
- ✦ Program and Project related expenses

# Community Innovation Grant Program in partnership with the BUSH FOUNDATION

## *Reprioritized for Coronavirus Efforts 2020*

Community Innovation Grants are process grants that will likely lead to a community innovation – a breakthrough in addressing a community need that is **more effective, equitable, or sustainable** than existing approaches.

✦ **Amount Available to Nonprofits:** \$400,000/year

✦ **Grant Size:** \$500 - \$10,000

✦ The Bush Foundation CIG program grant size - \$10,000 - \$200,000

✦ <https://www.bushfoundation.org/grants/community-innovation-grants>

✦ **Application Deadlines:** (As a guideline for 2021)









2019 GRANT DEADLINES	1 <sup>st</sup> Round	2 <sup>nd</sup> Round	3 <sup>rd</sup> Round
Open	January 14	May 13	September 2
Close	February 15	June 14	September 30
Recipient Announcement	April 30	August 31	December 31

# Nonprofit Savings Accounts Grant Program

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The South Dakota Community Foundation is committed to strengthening nonprofits in our state. We recognize the value of committed staff and volunteers and understand the importance of consistent funding to support their work.

## **Challenge Grants:**

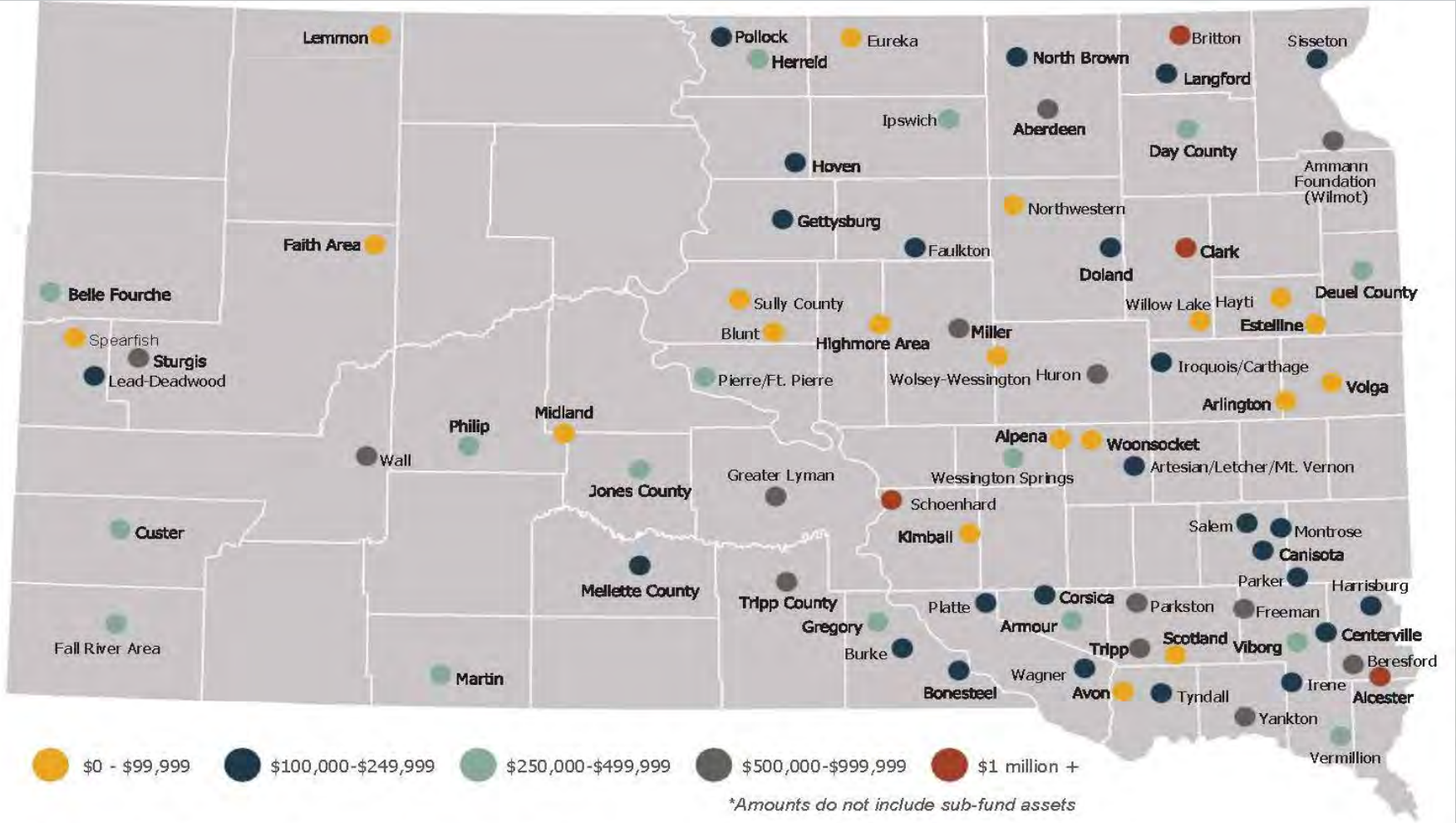
-  Applications accepted throughout the year
-  Successful applicants will receive \$1 for every \$4 raised. (1:4 match), up to \$20,000
-  Nonprofit organizations must raise \$80,000 in two years
-  Money must be in account by deadline
-  Funds will be designated to benefit an IRS verified nonprofit in SD
-  \$100,000 Endowment created to benefit nonprofit organization
  -  Fund balance invested in perpetuity
  -  4.5% of the average fair market value is available annually

# Community Savings Account (CSA)

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- A local CSA aids your community in getting projects done and meeting goals to improve the lives of residents in your town.
- As the CSA grows, so does the amount available to give back. Dollars raised local, stay local.
  - ✦ 80 CSAs in South Dakota
  - ✦ Nonprofit organizations can apply to their local CSA and to the SDCF
    - ✦ Partnering with a CSA and SDCF helps leverage dollars
    - ✦ Provides a connection and better understanding of needs and support
  - ✦ In March, SDCF launched an initiative to match funding to CSAs for coronavirus efforts.
  - ✦ It was seeded with dollars from the South Dakota Fund.

# Community Savings Account (CSA)



Community Savings Accounts Fund Values\*

# Grant Tips

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## ✦ Do Your Homework

- ✦ Eligible
- ✦ Deadlines
- ✦ Budget
- ✦ Partners

## ✦ Tell Your Story

- ✦ Committee is from all over SD
- ✦ What has been done/what needs to be done
- ✦ Competitive process/what makes your project stand out

## ✦ Community Support/Partners

- ✦ Sustainability
- ✦ Roles partners play
- ✦ Matching funds

## ✦ Ask Questions

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**Gayle Wookey**

**Greater Clark Area  
Community Foundation**

*Stronger South Dakota*  
**Lunch  
&  
Learns**  
**Noon-1 p.m. CT/11 a.m. -noon MT**  
*For community savings account leaders*

Thursday, October 8th  
**#SDCFGives Challenge 2020**

Tuesday, November 10th  
**Grantmaking tips and expenditure  
responsibility/charitable purpose overview**

Tuesday, January 12th  
**Fundraising and Donor Engagement in  
Uncertain Times**

**SOUTH DAKOTA  
COMMUNITY FOUNDATION**

Learn more at [sdcommunityfoundation.org/stronger-south-dakota-lunch-and-learns/](https://sdcommunityfoundation.org/stronger-south-dakota-lunch-and-learns/)

# Questions?

**Ginger Niemann**

Senior Program Officer

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**SOUTH DAKOTA  
COMMUNITY FOUNDATION**