

Emergency & Direct Financial Assistance: A Practical Guide for 501(c)(3) Organizations



This guide outlines the essential components of designing, administering, and documenting an emergency or direct financial assistance program for nonprofit community organizations. It supports transparency, compliance, and equitable access for community members experiencing hardship.

Note: The information here is not legal advice and is for educational/informational purposes only

Ensuring Alignment with Mission and Articles of Incorporation

A direct financial assistance program must be grounded in the organization's stated purpose. This ensures legal compliance, strengthens accountability, and protects the organization's charitable status.

Confirm Mission Alignment

- Review the organization's **articles of incorporation** to ensure emergency assistance fits within the charitable purpose.
- If the mission focuses on community well-being, economic stability, housing, health, or crisis support, financial assistance is typically aligned.
- If the mission is narrow or program -specific, determine whether assistance supports that mission or whether amendments are needed.

Amending Articles of Incorporation

- Seek board approval to amend the articles and maintain board minutes as part of organizational records
- Seek legal advice if you need amendments, or if you are unclear about your program alignment.
- Legal resources:
 - Your organization's legal counsel
 - LegalCorps

Establishing the Program

Ensure staff and volunteers understand how the program fits into the broader mission and strategic plan.

Define Your Community of Support

This program must serve individuals who demonstrate financial hardship in alignment with the mission of the organization. Beyond that, the organization must identify who its

program is intended to serve. For example:

- Residents within a specific neighborhood or ZIP code
- Members of a cultural, racial, or identity-based community
- Individuals meeting certain demographic or economic criteria

Create an Accessible Application Process

- Decide how community members will apply (online form, paper application, phone intake, partner referrals).
- Conduct outreach to ensure the community is aware of the program.

Establish an Eligibility Verification Process

- Determine what documentation will be required to prove eligibility. The verification process needs to prove financial need.
- Document the process clearly and apply it consistently.

Conflict of Interest Policy

- Create a written policy addressing situations where applicants are related to staff, board members, or volunteers.
- Ensure decisions are impartial and documented.

Disbursement & Documentation Requirements

Disbursement Procedures

- Define how payments will be issued (check, ACH, prepaid card, vendor payment).
- Maintain appropriate financial controls per your financial policies and procedures.

Required Documentation

Maintain records for each assistance case, including:

- Date of assistance
- Description and purpose of assistance
- Name of recipient
- Amount or cost
- Documentation of eligibility verification
- Documentation of selection criteria
- Approved payment request (approved by someone other than the payment issuer)

Tax & Compliance Considerations

Organizational Tax Reporting

If emergency financial assistance is one of the organization's three largest programs, it must be reported on:

- Form 990 or 990-EZ: Describe the program in the Statement of Program Service Accomplishments.
- Schedule I: Report assistance to individuals, including types of support, total amounts by category,

and number of recipients. Individual names are not disclosed.

Tax Treatment for Recipients

- Emergency hardship payments made by a charitable organization on the basis of need are not taxable to the recipient.

Tax Treatment for Donors

Contributions to 501(c)(3) organizations are generally tax-deductible.

Best Practices for Equity & Accountability

- Use clear, accessible communication with applicants.
- Ensure the process is culturally responsive and equitable.
- Track demographic and outcome data to identify disparities.
- Review policies annually to ensure relevance and fairness.
- Train staff and volunteers in confidentiality and trauma-informed practices.
- Explore ways to keep personal confidential information secure and accessible to the least number of people possible.