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Upcoming Events

We have many educational events planned for the coming months.

New Website

Visit our new website for nonprofit news, resources, events, webcasts, and more!

Contribution Documentation Checklist

During the past 10 to 15 years, Congress has substantially increased the documentation requirements needed to support many types of contribution deductions. The IRS enforces these requirements, and the courts have generally upheld the IRS's complete denial of improperly documented deductions even when there was other evidence of a contribution. Therefore, "substantial compliance" has not been enough to protect many deductions.

For the most part, these laws are the direct concern of the donor rather than the charity, as very few such laws penalize organizations for non-compliance. Charities play a critical role, however, because donors often cannot properly claim contribution deductions if the organization does not comply with the requirements. Also, for non-cash gifts, the charity's representative is often the first person to alert the donor of a requirement.

This checklist will point organizations and donors to issues that need to be addressed for a donor to properly claim a contribution deduction. To keep it functional as a checklist, we have omitted long explanations. If any part seems to apply to you and you are not sure of the requirement details, please consult a tax advisor.

Download or print the checklist here.

As tax counsel at CapinCrouse, author John Butler focuses on serving exempt organizations. He provides a range of services, including consulting on tax and employee benefit related matters, representation before state and federal tax authorities, and assistance with firm audit or advisory engagements to formulate counsel and opinions on important operating and tax issues.

Tax Considerations for Special Events

Special events can be a good source of revenue for your organization, and annual events can grow into a strong, long-term source of funds. The key is that it takes planning. In this article, we'll cover the potential tax ramifications you need to consider.

First, it's helpful to understand what constitutes a fundraising event in the eyes of the IRS. The Form 990 instructions note that fundraising events include:

> ... dinners and dances, door-to-door sales of merchandise, concerts, carnivals, sports events, auctions, casino nights (in which participants can play casino-style games but the only prizes or auction items provided to participants are noncash items that were donated to the organization), and similar events not regularly carried on that are conducted for the primary purpose of raising funds.

The definition goes on to say that fundraising events do not include:

1. The conduct of a trade or business that is regularly carried on;
2. Activities substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds);
3. Solicitation campaigns that generate only **contributions**, which may involve gifts of goods or services from the organization of only nominal value, or sweepstakes, lotteries, or raffles in which the names of contributors or other respondents are entered in a drawing for prizes of only nominal value; and
4. Gaming.

The revenues, contributions, and expenses from these events are reported on Form 990, Part VIII, Line 8. If the amount is more than $15,000, it is also reported on Schedule G, Part II.

What You Need to Know Before Planning Events

In these challenging economic times, it is important - if not imperative - to come up with innovative ways to raise funds. Go ahead and innovate, but be aware that the playing field has changed recently.

There are two areas to be aware of as your team plans new fundraising events. First, watch out for unrelated business income and the corresponding filings and taxes for that income. Second, make sure your team and board are well versed on Form 990, specifically the Schedule G instructions.

Traditionally, fundraising events at nonprofit organizations include events like donor banquets, golf tournaments, 100k run/walks, silent auctions, and carnivals. When it comes to special fundraising events, though, the most common source of unrelated business income tends to be from "inadvertent" advertising income. Generally, the most lucrative element of event fundraising comes from corporate sponsorships. The problem occurs when sponsorship revenue crosses the line into advertising income.

At nonprofit organizations, corporate sponsorship income is accounted for as a charitable contribution. But advertising revenue, by definition, is unrelated business income and subject to taxes at rates of up to 35%. If your nonprofit organization receives gross unrelated business income of $1,000 or more in a given year, you are required to file Form 990-T and pay the related taxes.

Remember, you may have to file a Form 990-T even if you are not required to file a Form 990. The wording in the determination letter for organizations that don't file Form 990 almost always includes verbiage to that effect.

Corporate Sponsorship vs. Advertising

So what exactly is the difference between a corporate sponsorship and advertising? With a corporate sponsorship you may display the sponsor's logo, use their name, list their product line, and give their address, website, and phone number. You can also award exclusive sponsorship, for example if you designate one airline or one hotel as a sponsor. If you engage in any of the following, however, the income you receive from a "sponsoring" company will likely be deemed advertising and subject to taxes:

1. Advertising (present comparative language, an inducement to buy a product, or discounts)
2. Designating a sponsor as an exclusive provider
3. Providing facilities, services, or other privileges to the sponsor unless they are of "insubstantial value"
4. Granting either exclusive or nonexclusive rights to use the sponsor's intangible asset (e.g., name or logo)

With regard to item #4, "insubstantial value," anything the sponsor receives in return for their sponsorship (greens fees, facilities use, tickets, goods or services, etc.) must have a fair market value of 2% or less of the sponsorship payment. If the value is more than 2%, the entire value of the return benefit is subject to unrelated business income tax (UBIT). More data on corporate sponsorships is available here.

Form 990 and Special Events

The other challenge for special events is Form 990, specifically Schedule G - Supplemental Information Regarding Fundraising or Gaming Activities. Prior to 2008, special events were reported on Form 990, Part I, Line 9 and required a "five-column" reporting format on an attached statement. With the new Form 990, if you have more than $15,000 in gross income from special events or gaming, or both, you are required to report more information than before. Schedule G, Part II requires detailed reporting for your top two fundraising events and collective reporting for all other fundraising events. You are also now required to show, on Schedule G, the breakout of amounts expended for "cash prizes," "non-cash prizes," rent/facility costs, and other direct expenses for each event.

If that sounds complicated, wait until you see what you need to report in Schedule G, Part III if you engage in fundraising events that the IRS classifies as "gaming." There are columns on the form for bingo, pull tabs/instant bingo/progressive bingo, and other gaming. What, you may ask, is "other gaming"? The IRS's glossary for the new Form 990 offers this definition:

> ...[gaming] includes (but is not limited to): bingo, pull tabs/instant bingo (including satellite and progressive bingo), Texas Hold-Em Poker and other card games, raffles, scratch-offs, charitable gaming tickets, break-opens, hard cards, banded tickets, jar tickets, pickle cards, Lucky Seven cards, Nevada Club tickets, casino nights, Las Vegas nights, and coin-operated gambling devices. Coin-operated gambling devices include slot machines, electronic video slot or line games, video poker, video blackjack, video keno, video bingo, video pull tab games, etc.

If your events fall under this definition, you are required to answer nine special, multi-part questions about these activities, including the name of your "gaming manager" and the compensation and services provided to him or her. The instructions for Schedule G are available here. But if gaming events are held as part of a fundraising event that must be reported on Schedule G, Part II, you may not have to complete Schedule G, Part III. See IRS Publication 3079, Tax-Exempt Organizations and Gaming, for more information.

Overall, it appears to be a great time to hold special fundraising events. So go ahead and get started on innovating, planning, and rounding up help. The more innovative and fun your team can be, the more additional funds you can probably raise to secure the future of your organization. Just be aware that there are pitfalls and work with informed accounting managers to avoid them.

Author Dave Moja serves as partner and National Director of Not-for-Profit Tax Services at CapinCrouse. He has 28 years of accounting experience and serves several industry committees, including the IRS Advisory Committee on Tax Exempt and Government Entities (ACT), Exempt Organizations subcommittee and the AICPA Not For Profit Advisory Committee.

4 Proven Strategies for Controlling Health Care Plan Costs

Are you beginning to wonder exactly what "affordable" means in the Affordable Care Act? Despite its best efforts through regulation, the cost of health care - and subsequently, health insurance - continues to increase annually. However, there are some creative ideas to help employers and employees alike control the cost of health insurance in today's complex health care system. Below are four proven strategies.

1. **Take measures to assure that your group is treated fairly in the health insurance marketplace.** Although it is a surprise to most, the nonprofit industry is regularly rated 15% to 20% above average by health insurers. Churches are typically rated even higher, at up to 40% above the average. Because of that, it is important to consider certain aspects of how you go out to market as a group.

- Be sure the timing of your plan's renewal is such that an insurance company can review the characteristics of your group without the pressure of deadlines. The information should be sent to an insurance company well in advance to allow the insurer time to consider all the positives of your group.
- A request for a proposal is best done when the insurer is not inundated with requests from other employers, especially those in "more favorable" industries. As you might imagine, if an insurer has to pick and choose which requests to work on or outright deny, they will spend their time on the employers in the industries they prefer. Currently, 40% of groups with over 50 employees renew their health insurance on January 1. December and July are also popular months for renewals, and therefore good dates to avoid if possible.
- The claims data that an insurer releases can often be incomplete and even damaging to a competing insurer's perception of your group's health risk. Before releasing that to the market, review the data and provide updates and clarification as necessary.

2. **Consider funding alternatives for your group's health plan.** A growing segment of the market for health insurance is with self-funded plans. While these plans bring along an element of increased risk, there are several potential benefits. With self-funded plans, employers:
   - Receive more data on group claims, and most importantly on large individual claims.
   - Have added control on plan features, as well as the drug card program.
   - Have the opportunity to benefit immediately from controlled health risks and lower claims. Due to this increased incentive, employers are more motivated to implement wellness programs, data analytics, and other measures to reduce health risks within the group.
   - May be able to select other vendors for various components of the plan, as opposed to simply using what an insurance carrier controls. These components include vendors for the drug card, the provider network, disease management, and more.
3. **Engage your employees with information on a regular basis.** In today's environment under the Affordable Care Act, the expense is greater and the system is even more complex than ever. Health care options abound, with free-standing surgery centers, walk-up clinics in drug stores, and an ever-growing number of prescriptions, to name just a few. Employees are certainly interested in how to best spend their health care dollar, and likewise need the time and opportunity to learn about their options, how to navigate the health care system, where to find information about health care, and much more. While the annual, one-hour benefits meeting is still an effective educational time, it should also be accompanied by other educational initiatives. Lunch and learns, web-based benefits portals, email blasts, and even text messages have become practical tools to keep helpful information in front of your employees.
4. **Encourage employees to seek assistance before a claim.** Not all health care providers charge the same, even within the same network. The cost for an MRI, for example, can be as much as 200% more at a hospital than at a free-standing facility. There are now several services and online tools available to help individuals understand the difference in procedure and cost. This also becomes increasingly important as the burden of cost continues to shift to the employee through higher deductibles, out-of-pocket maximums, and co-pays.

While the health care system has become more challenging to navigate, these steps will help both your organization and your employees better understand the available options and control costs.

Author Chris Goodspeed is a senior benefit strategist with Brinson Benefits in Dallas. Chris has serviced clients' needs in the health insurance industry for over 25 years, with a current focus on all employee benefit programs. Brinson Benefits is a leading employee benefits firm with a goal to help employers achieve single-digit renewals, and the mission to help employees understand and fully benefit from their health insurance plans. To sign up for the monthly Brinson Buzz, click here.

Are You Ready for the Omni Circular?

The Office of Management and Budget's (OMB's) so-called Omni Circular supersedes and streamlines requirements from eight existing circulars that apply to federal awards. Although the new audit threshold has received much of the attention, nonprofits that receive federal awards should be aware of other significant changes that took effect for new contracts starting after December 26, 2014.

Cost Principles

The Omni Circular, or the "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," includes significant reforms to the cost principles formerly found in Circulars A-21, A-87, and A-122. For example, a nonprofit that's never had a negotiated indirect cost rate may now use a de minimis rate of 10% of modified total direct costs. Nonprofits that have an approved federally negotiated indirect cost rate can apply for a one-time extension up to four years without further negotiation.

The Omni Circular also clarifies when administrative salaries can be considered direct costs, adds reporting requirements for compensation, and includes some computer costs with materials and supplies. Changes may be necessary to comply with the specific requirements for time and effort tracking. Overall, the guidance should allow nonprofits to recover more costs from the federal government, according to the OMB.

Subrecipient Monitoring

The final guidance clarifies expectations for awardees about the oversight and management of any "subawards" nonprofits provide to other entities (known as "subrecipients") to carry out part of the awardee's grant. One example is when a nonprofit passes some of its award funds to another nonprofit to conduct research or run a program. The guidance requires the original awardee to evaluate each subrecipient's risk of noncompliance with federal statutes and regulations and the terms and conditions of the subaward to determine monitoring procedures.

Monitoring must include review of any performance or financial reports the awardee requires from its subrecipients to meet its oversight requirements under the terms of the federal award. Monitoring also must include follow-up to ensure that these organizations take timely and appropriate action on all deficiencies detected through audits and on-site review. The original awardee, referred to in the Omni Circular as a "pass-through recipient," must verify that a subrecipient receives the required audit. But, for smaller subrecipients where an A-133 audit isn't required, additional monitoring may be needed.

Grant Management

Awardees must set and maintain effective internal control over the award. This means providing reasonable assurance that the award is being managed in compliance with the award's terms and conditions and federal laws.

Internal controls should comply with the U.S. Comptroller General's "Standards for Internal Control in the Federal Government" and the Committee of Sponsoring Organizations of the Treadway Commission's "Internal Control - Integrated Framework." The Circular also requires awardees to take reasonable measures to protect information that is personally identifiable or designated as sensitive.

Performance Management

The Omni Circular stresses that the awardee's performance should be measured in a way that will help an awarding agency and other nonfederal entities (for example, other nonprofits) improve program outcomes, share lessons learned, and spread the adoption of promising practices.

Awarding agencies (for instance, the Department of Health and Human Services) must require awardees (such as community clinics) to relate financial data to performance accomplishments of the award. These recipients also may need to provide cost information to demonstrate cost-effective practices. All awarding agencies are required to state clear performance goals, indicators and expected outcomes.

Audit Requirements

The Omni Circular also changes the threshold for requiring a single audit. Since 2004, a single audit was required when an organization spent $500,000 or more in federal funds. The Circular raises the threshold to $750,000 for fiscal years beginning on or after January 1, 2015. The Council on Financial Assistance Reform noted that this increased threshold would still encompass 99.7% of the dollars currently covered under a single audit.

Act Now

Federal funding is critical for the survival of many nonprofits, making compliance with the rules critical, too. We can help you set up the necessary systems and controls to comply with these changes. If you have any questions, please contact CapinCrouse partner Fran Brown.

3 Tips to Improve Development and Accounting Collaboration

Communication breakdowns between a nonprofit organization's development and accounting departments can lead to confusion, embarrassment, incorrect financial statements, loss of donor confidence, or financial problems. Nonprofits, therefore, must take proactive steps to facilitate collaboration between these two critical functions. Here are three tips:

1. **Get a handle on the differences**
   Accounting and development typically record their financial information differently, which is why they can produce numbers that vary but nonetheless are both correct. The development department likely uses a *cash basis* of accounting, while the accounting department records contributions, grants, donations, and pledges in accordance with generally accepted accounting principles (GAAP).

   How does this difference play out? Let's say a donor makes a $10,000 payment in April 2015 on a pledge made in December 2014. The development department will enter the amount of the payment as a receipt in its donor database in April.

   The accounting department, however, will record the payment against the pledge receivable that was recorded as revenue when the pledge was made in December. Receipt of the check won't result in any new revenue in April because the accounting department recorded the revenue in December. Both departments' figures for April 2015 (as well as December 2014) will be accurate, but they'll disagree with each other.

Similar disparities can arise with grants. Development will often record a grant when it receives the cash. But if the grant is contingent on a future event, GAAP may preclude accounting from recording the grant as revenue until the future condition is satisfied.

2. **Establish clear policies and procedures**
With two different approaches to recording financial information under one roof, it's critical that nonprofits reconcile their accounting and development schedules on at least a monthly basis. They also need clear protocols for communicating important activity - or both departments, and the organization, could experience negative consequences.

   For example, if development fails to inform accounting about grants on a timely basis, the latter won't be aware of the grants' financial reporting requirements, and could forfeit funds for noncompliance. And if the accounting department doesn't record grants or pledges in the proper financial period according to GAAP, the organization could run into significant issues during its audit - which could result in loss of donor confidence and jeopardize future funding.

3. **Require regular communication between department representatives**
Probably the last thing anyone wants is more meetings, but the stakes are too high to leave communication between the two departments informal. Initially, accounting representatives can use meetings to gently educate development representatives about the information it needs, when it requires it, and the consequences of not receiving that information.

   Development staff should provide accounting with ample notice about prospects on the horizon, such as pending grant applications and proposed capital campaigns. And development should present status reports on different types of giving - including gifts, grants, and pledges. This is especially important for those items received in multiple payments, because accounting may need to discount them when recording them on the financial statements.

   Regular meetings also give the two departments an opportunity to resolve any issues related to reconciling different sets of financial figures.

A Two-Way Road

The activities of the accounting and development departments directly affect each other, so careful coordination is essential. This should include proper oversight and encouragement from a senior leader with the necessary authority to ensure the teams work together. By taking the steps described above, employees with different processes and objectives will be able to work together to help the organization fulfill its mission.

Are Unfilled Positions Costing Your Organization Money?

When an organization has unfilled positions, the most common response is to divide and reassign those job responsibilities among employees to ease the strain of the vacancy. Problem solved. Or is it?

Although this may seem like a cost-saving measure when you view salaries and total headcount, leaving staff positions empty could actually be costing your organization money.

Let's first consider what operating with a personnel deficit can do to your current employees and your organization as a whole. Increased demand on staff often leads to low employee morale, decreased productivity, and increased turnover. When staff members are overloaded, they generate fewer ideas, which can impact fundraising efforts and the progress and growth of the organization. The combination of employees being overworked and working outside their area of expertise can result in missed deadlines and impede your organization's ability to fulfill your vision and mission. In addition, not operating at capacity can have a considerable impact on employee satisfaction, work-life balance, and the overall success of the organization.

While your goal is to always be a good steward of the money you've been given, operating with vacancies can impact your ability to do so. Rather than looking at the cost of the salary and benefits associated with an open position as "money saved," consider the positive contribution that position will have in helping your organization operate effectively and efficiently.

If unfilled positions are impacting your organization, the CapinCrouse Recruiting Team can help. With a combined total of over 40 years of human resources and recruiting experience, our team will leverage our expertise and resources to help alleviate your hiring challenges. Whether we partner with your human resources team or manage the process for you, we are dedicated to helping you find the right fit for your organization.

We provide the following staffing and recruiting services:

- Writing job descriptions
- Conducting salary research
- Posting the position on appropriate job sites
- Screening resumes
- Conducting phone interviews
- Checking references and performing criminal and credit reports

In addition to our staffing services, we offer **team building and development services** that can provide the insight, direction, and focus necessary to take your organization to the next level. This includes:

- Personality assessments
- Organizational behavior assessments
- Strategic assessments of composite team profiling and development

Our goal is to support your mission by assisting you in developing a strong team. Please contact Heather Mausz, National Director of Talent Acquisition, to learn more about how we can serve you in this area.

Newsbits

What you need to know about the FASB Exposure Draft

In April, the Financial Accounting Standards Board (FASB) released the Exposure Draft of its proposed updates to not-for-profit financial reporting standards. This has been getting a lot of attention and generating a lot of discussion.

In case you missed it, here are some resources to help you understand the proposed changes and how they may impact your organization:

- Not-for-Profit Financial Reporting 3.0: New FASB Exposure Draft - article by CapinCrouse partner Gregg Capin
- Nonprofit Financial Statements: Preparing for Change - Recording of the June 25 CapinCrouse webcast (note that CPE credit is not available for recorded webcasts)
- FASB In Focus overview
- FASB FAQ document - issued on May 19
- FASB FAQ document - issued on June 30
- FASB FAQ document - issued on July 23

The comment period for the Exposure Draft has now closed. We will keep you informed as more information becomes available.

Reminder: new health plan reporting requirements

As we noted in our last newsletter, many employers are now required to provide employees with significantly more information about their health plan coverage. If you haven't begun planning for these reports, which are due January 31, 2016, it's important to do so now to allow enough time for collecting, organizing, and sending the detailed information.

This article explains which employers will have the additional reporting obligations, and the types of information they will need to provide.

2015 Higher Education Tax Reporting Trends Project now available

The sixth edition of our annual *Higher Education Tax Reporting Trends Project* provides financial, tax, and demographic data complied from 198 colleges, universities, and seminaries across the U.S.

This year's survey included questions about property taxes on campus buildings, accountable reimbursement plan procedures, and soccer teams and stadiums. We also looked at Form 990 data, including average total employees, salaries and compensation, and expenses among our survey respondents.

Our goal is for this report to be a useful reference guide and information tool for higher education institutions. You can download a complimentary copy here.

Spam filters cost nonprofits $15,000 annually

The 2015 Nonprofit Email Deliverability Study found that, although donations made in response to emails accounted for about a third of online fundraising revenue in 2013, one in eight emails never reaches an inbox, instead being marked as spam. As a result, according to the study, a nonprofit loses on average almost $15,000 each year. The study - conducted by EveryAction, a technology solution provider that helps nonprofits organize fundraising campaigns - analyzed 55 national nonprofits with mailing lists of at least 100,000. They concluded that nonprofits could raise their email fundraising dollars by 14% by reducing the emails that are considered junk mail.