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News for Nonprofits



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Status quo

How to keep your “public charity” designation

If your organization is a public charity, retaining its 501(c)(3) tax-exempt status in future years is no sure thing. To keep that desirable classification, there are specific actions you must take — and even more activities you must avoid. Foremost, after the first five years of existence, you must demonstrate through Schedule A of Form 990 that your organization meets the support test qualifying it as a public charity.

SCHEDULE A REQUIREMENTS

All public charities, with the exception of supporting organizations, must initially — and annually — complete Schedule A, Part I (“Reason for Public Charity Status”) of Form 990 to identify why they aren’t private foundations. An organization should check the box that coincides with its IRS Determination Letter that defines under which statute the IRS has granted exemption.

An organization that is currently tax-exempt under Internal Revenue Code (IRC) Section 170(b)(1)(A)(vi) (Box 7 on Schedule A, Part I) needs to pass the public support test on Part II of Schedule A each year. An organization that’s exempt under IRC Sec. 509(a)(2) needs to pass the public support test on Part III of Schedule A each year.

“OFF-LIMITS” ACTIVITIES

Simply passing the appropriate public support test doesn’t guarantee that you’ll maintain your tax-exempt status as a public charity, however. Broadly speaking, there are five types of activities that can jeopardize your exempt status:

- 1. Operating for the benefit of private interests.** No part of a 501(c)(3) organization’s net earnings may inure to the private benefit of individuals, such as the organization’s founders, executives or board members — or their family members. These types of activities are banned because they have no public benefit. And providing a public benefit is the reason why your organization was granted tax-exempt status in the first place.
- 2. Substantial lobbying.** Two factors determine whether lobbying activities are “substantial.” One considers the time spent by compensated employees and volunteers on lobbying activities. The other, the



Start me up

So, how does a *new* organization obtain public charity status? If your nonprofit is a start-up, you must apply for an employer identification number (EIN) using application Form SS-4. You and the other founders will want to talk to an attorney early on to assist with preparing the organizing documents and writing the bylaws. These documents will need to be attached to Form 1023, "Application for Recognition of Exemption under Section 501(c)(3)," when filing with the IRS.

Form 1023 needs to be filed with the IRS within 27 months from the end of the month in which the organization was legally formed. After approving your application, the agency will send you a determination letter confirming your organization's tax-exempt status. The organization must make Form 1023 and all support documents available for public inspection if anyone requests to see them.

expenditure test, is a more objective factor. Your nonprofit can elect to use this option — called a 501(h) election — by using Form 5768. (Churches are ineligible.) The 501(h) election sets a defined limit on the amount of lobbying an organization can undertake before losing its exempt status.

3. Any political campaign activities. These include making contributions to a political campaign fund or making public statements for or against a candidate for public office.

4. Generating excessive unrelated business income (UBI). UBI is income from a trade or business activity that is regularly carried on and not related to your exempt mission. The Internal Revenue Code is silent as to what is too much.

Excessive UBI has been interpreted as spending a "significant" amount of time on the unrelated activity. For example, if an organization has

more UBI than program expenses, the IRS likely will consider terminating its exempt status. But courts have considered an organization spending even as little as 10% of its total efforts on a UBI activity to be too much.

5. Failing to comply with reporting obligations. Although your organization might be tax-exempt, you're still required to file Form 990, Form 990-EZ or Form 990-N. You also must withhold employment taxes, excise taxes and state and local taxes, where applicable. If your organization fails to file some type of 990 for three consecutive years, your tax-exempt status will be revoked.

In fact, according to GuideStar, hundreds of thousands of nonprofits will receive revocation letters in 2011, after failing to have met an Oct. 15, 2010, one-time filing extension for small organizations that previously weren't required to file any type of 990. If your nonprofit faces this risk, start preparing for the reinstatement process now.

ONGOING ATTENTION

If you're unsure whether an activity your public charity sponsors or participates in is permissible, take an IRS EO Mini-Course or Interactive Workshop on the topic. You'll find these tools at stayexempt.irs.gov.

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You also should work with your financial advisor on an ongoing basis to ensure that you meet the Schedule A public support test. Finally, it's a good idea to review your activities annually to make sure you aren't involved in any of the "off-limits" activities. *

Double your treasure

Corporate matching funds, while not always as hefty as in prerecession years, continue to be a viable gifting source. Of companies responding to an annual study by the Committee Encouraging Corporate Philanthropy, for example, 54% decreased their matching program funds from 2008 to 2009. But nearly half (46%) stepped up their contributions, according to results of the study, *Giving in Numbers: 2010 Edition*, with median matching from those firms reaching \$3.69 million.

HOW DO THEY WORK?

Most matching gift programs are managed by HR departments, which provide employees with matching gift forms. Typically, the employer sends the completed forms, along with the matched donations, to the charity the employee has chosen.

The forms generally provide step-by-step instructions for securing the matching funds from your donor's employer. The information usually includes deadlines, required support documents and where to submit the forms.

Dollar-for-dollar matching is most common among participating corporations, but some companies may offer more, others less. Many companies match donations to any nonprofit, but some are more restrictive and won't match donations to potentially controversial organizations.

While you may be familiar with how matching funds work, your staff may not be. Be sure to train all employees and volunteers who open donor mail in procedures for handling matching gift forms.



HOW CAN YOU BUMP UP FUNDING?

Aside from making sure that you handle the forms properly, you can take other simple steps to increase the amount of matching funds you receive. One often-successful approach is to draw up a list of employers in your area that offer matching funds. Typically, you can find this information in annual reports, on company websites or by calling companies' HR, PR or community relations departments. If the company operates a foundation, its matching program may run through that entity.

Once you have a comprehensive and accurate list, post it on your website's donation page. And use it to reach out to existing donors you know work for those companies.

Another strategy: Include a matching funds message in all of your solicitations. Letters might get a P.S. reminding potential donors to check with their HR departments on matching funds availability.

WHAT ABOUT SHRINKING PROGRAMS?

In response to the struggling economy, some companies have trimmed or eliminated their matching gift programs. But don't despair —

corporate programs represent only one opportunity to raise more cash for your organization through matching. Another is to create your own matching funds pool.

Consider approaching your board and major supporters about matching donations during a certain time period, from certain populations or for a minimum donation amount. Countless parameters are possible. You may want your board, for example, to agree to match all donations from new contributors in a particular month or ask other major supporters to commit to match donations made at your next fundraising event.

The advantage to creating your own matching funds pool is twofold:

1. You make donating more attractive because donors get to enjoy helping to make a larger contribution than they'd have been able to manage on their own. Knowing it

will be matched, they might even bump up the amount of their donation — particularly if you have a minimum amount eligible for the match.

2. You receive the match — a donation that the board or other major supporter may not have otherwise made.



Also keep in mind that some charitable foundations will match gifts to jump-start a fundraising effort or major campaign. This might be easier to arrange than securing a large employer to donate to your organization.

BE PERSISTENT

Whether you compete for corporate matching funds or sponsor your own matching program, using strategies like those mentioned above is likely to improve your odds as you vie with other charities. And in an economy that's running at less than full steam, such revenue sources are worth pursuing. *

Finding *more* ways to cut costs

You've heard the varying views on how long it will take for the economy to recover. Whatever your take is, your nonprofit likely is still looking for ways to reduce expenses. Where should you begin?

CUT THE FAT

Take a close look at your organization's current expenditures for all its goods and services. Are all your "necessities" truly necessities? There are *always* expenses that can be eliminated. For

example, consider your phone and Internet service. Do you have features, such as conference calling, that aren't being used? If so, cancel these features immediately. You may even find that you have too many phone lines for the size of your organization.

And what about those magazine subscriptions you provide as reading material in your lobby? Consider cutting down your subscription list to one or two periodicals or eliminating them altogether.



Also, when you place your next office supply order, consider whether you really need to stock up on several sizes of sticky notes. Take a poll — do your employees even use them all?

Even if you can eliminate only one or two small monthly expenditures, the savings can add up in your annual budget. Then calculate the savings over a five-year period to confirm that this exercise was well worth your while.

GET CREATIVE

Next comes the fun part — ask yourself how you can accomplish the same goals without spending the cash. For instance, consider eliminating postage for bill and vendor payment by paying online or via telephone. You may even be able to hand-deliver payments to certain vendors.

What about the coffee that you provide for your employees? Think about asking the coffee drinkers to donate a small amount to cover the beans, cream, sugar and cups.

And instead of shelling out cash for event signage, find an employee (or volunteer) with calligraphy skills and have him or her print the signs by hand. Or, ask a sign company for a product-service donation.

Additionally, consider bidding out all of your vendor services — or asking your vendors for

a small price reduction. You likely can find better prices for almost everything, from your Internet service to your printing jobs to your cleaning service.

You can reduce your vendor services as well. Perhaps you use a cleaning service five days a week. Consider cutting down to three or four days and asking the service to provide a new fee quote.

Buying in bulk is another opportunity for savings, and it doesn't apply just to supplies. If you don't have long-term contracts with your building lessor, for example, you may be able to negotiate a lower rent by agreeing to extend your lease another five years.

GO GREEN

Employees usually respond well to environmentally friendly ways of cutting expenses. For example:

- * Install a water filter in your break room kitchen sink and stop buying bottled water or paying for a water service,
- * Educate your employees on the importance of turning off overhead, cubicle, under-the-shelf, and other desk lights and lamps to save energy — and cut utility costs, and
- * Re-use office supplies — ask employees to look through their “stuff” and put pens, pencils and pads of paper they don't use in one area to be redistributed to co-workers.

Even simple steps such as having employees turn off their computer stations every night can add up in savings and create some ecological goodwill.

AN EYE ON RESULTS

As you revisit your expenses, keep in mind that it may be easier to reduce all — or almost all — expenses a little than to eliminate the larger costs altogether. And for any cost reductions you make, monitor the results. If a cost reduction reduces the quality of your services, it's probably not worth doing. *

NEWS FOR NONPROFITS

TIME FOR A PERK?

If your nonprofit is unable to give pay raises this year, you can find other ways to reward employees for their hard work. Trying to help them achieve better work/life balance is one way.

Based on the 2010 *Compensation Data* survey questionnaire for nonprofits, published by Compdata Surveys, more than half of the nonprofits offering paid vacations use years of service to determine the number of vacation days (not including personal and sick days) an employee can receive each year. But you can use time off more creatively. For example:



- * Consider having half workdays on Fridays, saving energy (and other) costs as you build employee morale.
- * For organizations serving clients, divide the office into two groups — each group gets half a day off every other Friday, allowing one group to be in the office at all times.
- * Think about giving those four hours to employees as flex time, which could simply be extra vacation time for employees to use as they please.

The idea is to reward your employees in some fashion as the economy tries to bounce back. Just make sure that your charitable mission doesn't suffer from the new perk. *

HEALTH CARE CREDIT

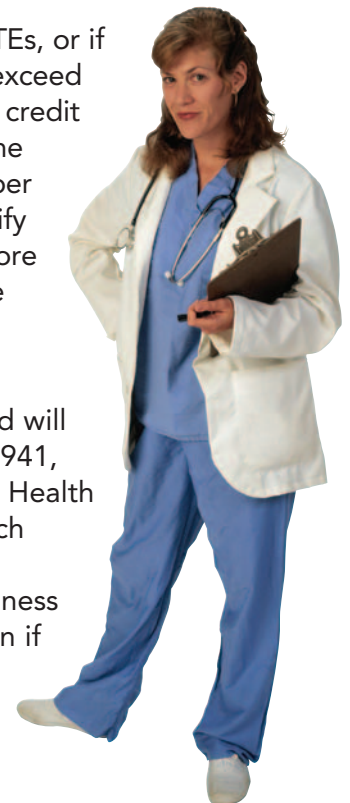
As a tax-exempt organization, you may be eligible for a new health care credit provided under the Patient Protection and Affordable Care Act. To qualify, your organization must:

- * Have fewer than 25 full-time equivalent employees (FTEs) for the tax year with average annual wages less than \$50,000 per FTE, and
- * Pay at least 50% of the premium for single (employee-only) coverage for each employee enrolled in your health insurance plan.

The maximum credit for a qualifying organization in the first year is 25% of your premium expenses that count toward the credit. However, the credit can't exceed the total amount of income and Medicare tax you're required to withhold from employees' wages.

If you have more than 10 FTEs, or if the average annual wages exceed \$25,000, the amount of the credit is reduced. Also, because the credit is based on the number of FTEs, you could still qualify for the credit if you have more than 25 employees — some of them could be part-time employees.

The credit is refundable and will be calculated using Form 8941, "Credit for Small Employer Health Insurance Premiums." Attach Form 8941 to Form 990-T, "Exempt Organization Business Income Tax Return" — even if your nonprofit has no taxable income — to claim the credit. *



The support you need. The service you're looking for.

Succeeding in the not-for-profit sector today requires more than a strong commitment to your mission. It takes shrewd fiscal management, careful regulatory compliance, skillful use of technology and the assistance of advisors who know the issues nonprofit organizations face and how to address them.

This is where Sechler CPA comes in. Our team of experienced professionals cherishes the opportunity to support nonprofit organizations, meet their management challenges and fulfill their missions. We offer a variety of specialized accounting, tax and consulting services including:

- * Audit intermediary services
- * Budget and policy design
- * Financial statement preparation
- * Outsourced accounting/bookkeeping
- * Tax form preparation (990, etc.)
- * Strategic and management consulting
- * Speaking on financial literacy and other topics
- * Technology and virtual system design

RESPONSIVE QUALITY

We are committed to providing responsive, personalized service to the highest quality. We take time to truly understand your Organization so that we can customize our recommendations to your specific situation. Our goal is to make your processes easier, streamline your operations and ensure your success in reaching *your* goals.

We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail carolyn@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

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