

***Association of Fundraising Professionals
Issues and Topics for Fundraisers Working with Nonprofit Organizations***

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Topics

SUBSTANTIATION REQUIREMENTS OF IRS

- Donor's responsibility to obtain acknowledgement of donation of \$250 or more.
- Acknowledgement must be: 1) written, 2) contemporaneous, 3) statement of the amount of cash donated, 4) state whether any goods or services were received by the donor in return (quid pro quo contribution), 5) describe the goods or services the organization received (no valuation needed) or gave (good faith estimate needed).
- Exception – organization need not make good faith estimate of a quid pro quo contribution if the goods or services given to the donor are insubstantial in value, certain membership benefits for \$75 or less per year, certain goods or services given to the donor's employees or partners.
- Quid pro quo contributions – if the organization receives a quid pro quo contribution of more than \$75, the organization must provide a disclosure statement to the donor which 1) must be written, 2) estimate a good faith estimate of value of goods or services donor received in return for the donation, 3) describe (but do not need to value) certain goods or services given to donor's employees or partners, and 4) inform the donor that a deductible contribution is limited to the donor's contribution less the organization's money and any goods or services given in return.
 - The value of goods or services received is not the cost to the organization but estimate fair value.
 - Acknowledgement of different types of donations:
 - In-kind – the organization should not provide a value of the donation – only a description. A value will need to be determined in order to properly record the in the financial records of the organization.
 - Out-of-pocket expenses are considered cash contributions and should follow the substantiation rules as such.
 - Auction items – amounts paid above the fair value of items purchased are considered contributions and should be acknowledged as such.
 - Motor vehicles, boats, airplanes and qualified vehicles.
 - Qualified vehicle is any motor vehicle manufactured primarily for use on public streets, roads, highways.
 - Form 1098-C requirements – can be obtained from IRS website.

- If social security number of donor not received, you check box 7 on the 1098-C but do not file with IRS or send to donor.
- Can use the 1098-C as the required acknowledgment or send separate acknowledgements.
- 1098-C must be send no later than 30 days after sale or contribution (if not going to sell vehicle).
- Donation of vehicle may occur in one year and sale in next year. Would recommend to donor to extend their tax return if possible.

FINANCIAL REPORTING ISSUES

- Recognition of contribution or grant in the financial statements occurs when the contribution is awarded not received. For example, most United Way awards are awarded before June 30 and actual receipt begins in July – for financial statements purposes, the whole amount of the award is recognized in the June 30 year end.
- Are the funds received contributions, fiscal agent funds, or exchange transactions. Each has a separate definition and recognition requirements.
 - Contributions – voluntary nonreciprocal donation of assets.
 - Fiscal agent – receipt of money not for your organization's benefit but either another organization or individual specified by the donor. This is not a contribution to the pass-through organization.
 - Exchange transaction – your organization is providing a service in exchange for the benefit of the funder. Most governmental contracts are exchange transactions and revenue recognized as earned.
- Fundraising expenses
 - Hot topic for IRS and other financial statement users.
 - Fundraising expenses are costs incurred to induce others to **contribute** money securities, time, materials, facilities, or other assets to the organization.
 - Still considered fundraising expenses even if services received are not recognized under generally accepted accounting principles.
 - Costs incurred in soliciting exchange transactions (such a request for proposals for government grants) are management and general expenses and not fundraising.
 - General types of fundraising activities: publicizing or conducting fundraising campaigns, conducting special fundraising events, maintaining donor lists, recruiting volunteers, etc.
 - Some activities have a fundraising component and other component (either program or management and general). These are consider joint activities are there are specific rules for allocations of these types of costs.

- If fundraising, including other nonprogram expenses, are affecting your organization's ability to receive funding, consider establishing a separate supporting exempt organization for purposes of fundraising for the main operating organization.

TAX ISSUES

- Be aware of activities that may be considered unrelated business activities and therefore subject to related taxes.
 - Unrelated business activities are allowed, they cannot become a substantial activity of the organization without possibly jeopardizing the exempt status of the organization.
 - Consult with a knowledgeable advisor before engaging in a new activity to avoid possible negative impacts.
- Sponsorships and advertising revenues should be evaluated for possible unrelated business tax issues

OTHER ISSUES

- Internet – see separate handout.
- Unified Registration Statement (“URS”) ([visit multistatefiling.org](http://multistatefiling.org)). The URS represents an effort to consolidate the requirements of all states that require registration of nonprofit organizations soliciting charitable contributions in their jurisdictions.