

Cooperative Extension Organizations and Tax Exempt Status

Over the next few weeks, we will be addressing issues related to handling of funds through our various Cooperative Extension organizations.

What changed to bring this issue to the forefront?

1. Federal laws changed. Beginning in 2007, ALL tax exempt entities (not just those with gross income over \$25,000) were required to begin filing annual tax forms to the IRS.
2. 4-H National Headquarters decided to cease serving in the role of parent organization for a group tax exemption for 4-H entities across the county. (July 2010)
3. Kentucky Cooperative Extension Service needs to demonstrate accountability for funds received/raised in the name of CES/CES's organizations.

As Kentucky Cooperative Extension Service began to look into the implications of these changes for Extension organizations across the state, it was apparent that the new IRS regulations were applicable to **all Extension organizations** that have income. Income usually involves a bank account and employer identification number (EIN). As the situation was assessed, we became aware of the need to put a structure in place that provides financial and program oversight for all Extension funds in the county.

Guiding Principles for Solution

1. Provide financial accountability and transparency
2. Be accountable, yet minimally disruptive
3. Establish a tax exempt basis for UK CES
4. Provide options rather than dictate actions

Possible Exemption Paths

1. Government Exemption – Cooperative Extension is tax exempt because Extension District Boards are considered governmental subdivisions of the Commonwealth (KRS 164.620)
2. 501(c)(3) status which is needed for certain grants or to conduct gaming and raffle fund raisers.

Assumptions

Each of the county's program areas will:

1. Have a functioning council (4-H, ANR, FCS, Horticulture, or Fine Arts) with elected officers and bylaws OR that at a minimum, the county has an informal group that has a chair and treasurer with a written purpose.
2. Have an active membership that reviews financial documents.
3. Develop a budget, conduct annual audit, and complete an annual financial statement.
4. Have financial records on file at the County Extension Office.

Options for Handling of Funds Locally

Each Extension entity will need to choose one of the four plans for handling funds described as Option A, Option B, Option C, or Option D.

All options must provide:

1. Financial accountability
2. Budget transparency
3. Group oversight



4. Adherence to UK money handling and financial procedures
5. Electronic recordkeeping

Option A – Governmental Multiple Checkbooks

The county program councils and their related sub-groups will maintain control and have autonomy over their own funds and individual bank account with general oversight by the County Program Council and the appropriate county agent.

Each entity must...

- Maintain a bank account using their own EIN.
- Develop an annual budget and provide a copy to the County Program Council and the appropriate County Extension Agent.
- Follow procedures for money handling, reimbursement and payment of bills as outlined in the Handling Program Council Funds section of the County Extension Office Procedures Manual. <http://ces-manuals.ca.uky.edu/content/money-handling-procedures>
- Have a committee audit of funds annually.
- Submit a copy of the annual budget, audit and annual financial statement to the County Program Council and place a copy on file at the County Extension Office.

Each county program council will:

- Maintain their own bank account with their own EIN.
- Develop an annual budget.
- Have a committee audit annually.
- Submit an annual financial report based on the financial year and copy of the audit to the County Extension Council and the District Board. (Counties without an Extension District Board will submit their report to the County Fiscal Court.)
- File copies of budget, annual audit, and financial reports with the Extension District Board and in the County Extension Office.
- Be provided donor letters and documentation affirming tax exempt status by the County Extension District Board.

Option B – Governmental Single Checkbook (per program council)

All funds related to a program area in the county will be handled centrally by the county program council, with separate accounts established in a Quicken, Quickbooks or similar electronic bookkeeping system for each related entity's (club/group/etc.) funds. Oversight for adherence to procedures will be the responsibility of the appropriate agent.

Each Entity will:

- Maintain control, have autonomy over, and make decisions related to the account.
- Develop a budget for their account and provide a copy to the program council and the appropriate County Extension Agent.
- Submit appropriate documentation including vouchers, receipts, and deposit information to the county program council treasurer.
- Follow procedures for money handling, reimbursement, and payment of bills for expenses as outlined in the Handling Program Council Funds section of the County Extension Office Procedures Manual. <http://ces-manuals.ca.uky.edu/content/money-handling-procedures>

The County Program Council will:

- Maintain their own bank account with their own EIN.
- Develop a budget.
- Have a committee audit annually.
- Provide periodic financial reports to each entity.
- Submit an annual financial report based on the financial year and a copy of the audit to the County Extension Council and District Board. (Counties without an Extension District Board will submit their report to the County Fiscal Court.)
- File copies of budget, annual audit, and financial reports with the Extension District Board and in the County Extension Office
- Be provided donor letters and documentation affirming tax exempt status by the County Extension District Board with wording that is inclusive of the County Program Council. Counties without and Extension District Board will make the request to the County Fiscal Court to send the letter.

Option C – Governmental-District Board Checklist

All County Program Council funds will be handled centrally by the County Extension District Board with a separate account established in a Quicken, Quickbooks, or similar electronic bookkeeping system for the County Program Council. Oversight for adherence to procedures will be the responsibility of the appropriate agent.

Each County Program Council will:

- Have control of, have autonomy over, and make decisions related to the account of the program council's funds.
- NOT have a bank account or EIN.
- Develop a budget for their account and provide a copy to the Extension District Board and the appropriate County Extension Agent.
- Submit appropriate documentation including vouchers, receipts, and deposit information to the Extension District treasurer.
- Follow procedures for money handling, reimbursement, and payment of bills for expenses as outlined in the Handling Program Council Funds section of the County Extension Office Procedures Manual. <http://ces-manuals.ca.uky.edu/content/money-handling-procedures>

The Extension District Board will:

- Generate and provide financial reports to the County Program Council for oversight and informational purposes at least quarterly.
- Audit the County Program Council accounts as a part of the County Extension Board audit requirements.
- Provide donor letters and documentation affirming tax exempt status with wording that is inclusive of the County Program Council.

Option D – Form 501(c)(3) Organization

County Program Councils and/or related entities may apply for tax exempt status as a 501(c)(3) organization. The councils/entities are a program of the Land Grant institution and will function through a Memorandum of Understanding with Kentucky Cooperative Extension Service.

There are at least two situations where it may be desirable for County Program Councils/entities to pursue 501(c)(3) tax exempt status:

- If the group conducts raffles, lotteries, or other forms of gaming as fund-raising activities **
- If the groups depends on grant funds that are awarded **only** to 501(c)(3) entities **

To help with decision making, look at pages 1-2 of the IRS form 1023 instructions at <http://www.irs.gov/pub/irs-pdf/i1023.pdf> and look at gaming information for Kentucky on the internet.

Once an entity decides to pursue 501(c)(3) tax status, an IRS Form 1023 Application for Recognition of Exemption must be completed and submitted to the IRS.

A program council or program entity with 501(c)(3) status will:

- Maintain their own bank account and EIN
- Need a signed Memorandum of Understanding between the Director of Cooperative Extension Service and each 501(c)(3) entity which will accomplish the following:
 - Financial accountability to the Extension District Board
 - Programmatic accountability to the Program Council and County Extension Council
- File the appropriate 990-series tax form according to IRS requirements annually. Failure to file may result in penalties, fines or revocation of tax exempt status.
- File a copy of the IRS 990 series form with the County Extension Council.
- File a copy of the IRS letter of determination of 501(c)(3) status with the County Extension District Board and send a copy to the Director of Extension's office
- Provide letters to donors acknowledging contributions and/or provide documentation affirming tax exempt status as requested.

**** 4-H entities:** If a 4-H entity want to pursue grants that require 501(c)(3) status, the Kentucky 4-H Foundation is willing to accept grants on behalf of a county 4-H entity making individual pursuit of 501(c)(3) status unnecessary. There will be a fee, currently 5% for this service by the foundation. If a 4-H entity plans to handle grant funds through the foundation, choose Options A, B, or C.

**** Extension Homemaker organizations:** Homemaker Clubs may choose from Option A, B, C, or D. If Option D is chosen, the clubs may continue operating as non-profit organizations by pursuing 501(c)(3) status and follow the steps outlined in documents distributed by KEHA in April, 2010. Extension Homemaker organizations (clubs, counties or areas) that conduct numerous raffles or any other type of charitable gaming or receive grants awarded only to 501(c)(3) entities will need to choose Option D. To be sure of which option is adequate for normal activities, each entity must review the Kentucky Department of Charitable Gaming Guidelines at <http://dcg.ky.gov/Pages/default.aspx>.

Additional 4-H Information

About multi-county and district 4-H entities:

4-H entities at multi-county and district levels may link with:

- The Kentucky 4-H Foundation OR
- An appropriate County 4-H Council for government exemption and follow their guidelines.

About state-wide 4-H entities:

- The funds of state level 4-H entities will be handled through the Kentucky 4-H Foundation.

4-H Decisions Needed:

- By March 15, 2011, each 4-H club/council or entity with EIN/checkbook will declare the option chosen (Option A, B, C, or D)
- State 4-H Office will be surveying each county to verify which plan is chosen.