

# NFP ADVISOR

ADDRESSING IMPORTANT ISSUES IN THE NOT-FOR-PROFIT SECTOR

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## Nonprofits Expect to Raise More Funds in 2011



## Tax-Exempt Organizations Paying Taxes?



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## Tapping into the Potential of Giving Circles

While many Americans would like to do more to support charitable causes, they often feel disconnected from nonprofit groups and are uncertain about how best to donate their money and time. To help potential donors make more informed decisions and to encourage them to get more involved, philanthropic organizations known as “giving circles” are springing up across the country.

Individuals who participate in a giving circle pool their financial donations and other resources, and they make joint decisions about how to distribute the funds they have collected. By building relationships with these circles, or even sponsoring their own circles, nonprofits can gain access to additional funding and more effectively engage both current and potential donors.

A recent study by the Forum of Regional Associations of Grantmakers identified more than 400 giving circles in the United States, representing more than 12,000 donors, who had donated close to \$100 million between 2000 and 2007.

Based on the results of a survey of giving circle members, the study noted that, while most members had been active in their communities before joining, participation in a circle provides them with a better understanding of philanthropy



in general and more detailed knowledge of the nonprofits operating in their communities and internationally. Members also report developing a greater awareness of the specific challenges facing nonprofit organizations, as well as of the personal struggles of people in need. The findings further indicated that giving circles influence members to donate more to charity, to give more strategically, and to contribute to a wider range of organizations.

Circles may offer a range of donor commitment levels, from a small fee per event to an annual commitment to give \$25,000 or more. In addition to pooling members’ money, giving circles often host their own fundraising drives or events. Some circles also ask members to volunteer their time to charitable causes. Regular participants in giving

circles generally appreciate the opportunity to socialize and network with like-minded people in the community.

The size and structure of these circles vary widely. Some giving circles are informal groups, in which paperwork is minimal and the members do not expect their donations to be tax deductible, while others are highly formalized and established organizations. These more established circles may be hosted by nonprofits or have their own nonprofit status, enabling donations to be tax deductible through their own IRS status or that of their host organization.

Nonprofit groups interested in tapping into the often considerable resources available through giving circles can start by investigating which giving circles are active locally or

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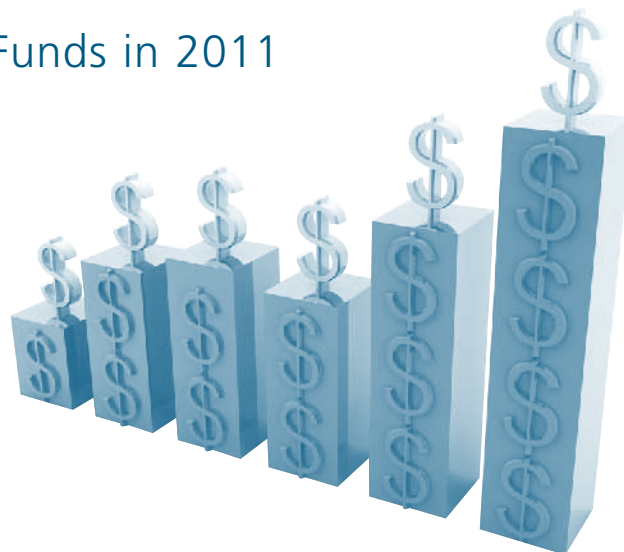
Nonprofit organizations are optimistic that 2011 may be a better fundraising year than 2010, but they remain concerned about the impact of possible cuts in government funding, according to a survey conducted by software provider Sage North America.

The January 2011 survey of 602 not-for-profit organizations showed that 90% expect the amount of funds raised this year to be equal to or higher than the amount raised in the previous year, up from 70% in 2010.

Results further indicated that organizations are planning to put more effort into online fund-raising during 2011, with 44% of respondents expecting the share of donations made online to increase this year. However,

donations currently make up a very small part of the fundraising volume, with 74% of respondents raising 5% or less of their donations online.

In addition, the survey found that nearly half (49%) of the organizations that receive public funding are anticipating receiving less support in 2011, largely due to budget cuts at the local level. Meanwhile, 38% expect to receive about the same level of government funding, and 13% expect to see an increase in funding from public sources. Of the groups that receive government funding, 85% believe recent changes in the political environment will have at least some effect on their funding. Nearly three-quarters (74%) indicated they are very or somewhat concerned that



some tax exemptions for nonprofits will be revoked in the next year or two.

“While signs point to a more positive outlook on fundraising, it’s clear that nonprofit organizations are still cautious and concerned,” said Krista Endsley, senior vice president and general manager for nonprofit

solutions at Sage. “We’re entering a time where diversification of funding sources and increasing attention to individual donors will be key for many groups looking to mitigate potential declines in government funding and contracts.” &

## Tapping into the Potential of Giving Circles

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are focused on supporting charities committed to their core issues or causes. Websites such as [givingcircles.org](http://givingcircles.org) or [givingforum.org](http://givingforum.org) can provide lists of giving circles, as well as contact information. Depending on the size of a circle, a relationship

may be established through informal phone calls or meetings, or following an application process. Larger circles may have grant-making committees that evaluate each application and make on-site visits to charities that have requested funding.

Some not-for-profit organizations may consider founding and hosting their own giving circle with the help of key donors who are already active in the organization. While a smaller giving circle typically has little overhead and can rely on volunteers to handle the administration of its funds, it is important to seek professional advice in defining the role the circle will play in the organization. A circle may, for example, rely on a simple joint bank

account, or it may have a donor-advised fund within a sponsoring foundation that acts as the fund’s financial administrator.

Establishing a relationship with an existing giving circle, or hosting a circle of their own, can provide a not-for-profit organization with the opportunity to raise money, while increasing awareness about the group’s mission and building levels of engagement among donors and the wider community. &



## Tax-Exempt Organizations Paying Taxes?

There has been a lot of talk recently about the effects of the Pension Protection Act of 2006, related to the revocation of the tax-exempt status of any nonprofit organization that fails to file the required annual information return for three consecutive years. Recent surveys have shown that approximately 75% of nonprofit organizations are worried about losing their tax-exempt status in the next couple of years.

While a large number of nonprofit organizations are concerned about losing their federal tax-exempt status, many are not fully aware of the growing amount of state and local taxes and fees they currently pay. According to a survey conducted by the Johns Hopkins Listening Post Project, 63% of nonprofit organizations surveyed are paying some form of taxes or fees to their state or local government.

Taxes and fees are levied on nonprofit organizations as state and local governments find themselves with increasing budget deficits. Across the country, religious organizations are paying property taxes on buildings they no longer use for worship, and while other nonprofits are paying new fees in place for street lights, storm sewers and drainage systems. All of these taxes and fees, from which nonprofits would have been exempt in the past, are being applied due to governments' desperate attempts to meet their budgets.

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The three major categories of taxes and fees affecting nonprofits are (1) payments in lieu of taxes (these are fees negotiated by the state or local government and the nonprofit) (2) "field specific payments" (such as admission charges) and (3) user fees (such as water, sewer and garbage collection).

According to the John Hopkins survey, the median amount of payments in lieu of taxes was \$30,000, with the average being \$422,095 in 2009. Nine percent of those organizations surveyed were paying this type of fee. Seventeen percent of the organizations responded that they were paying "field specific payments." The average amount paid for these

fees in 2009 was \$8,000. Finally, 42% of organizations surveyed were paying some type of user fee, making this the most popular fee type. In 2009, the median amount paid in user fees was \$3,064, with the average being \$122,277.

When looked at closely, nonprofit organizations find these fees and taxes are having a significant burden on their budgets. However, it seems that the state and local governments have been able to slowly increase these taxes and fees over the past couple of years without too much notice. Because of this, very few nonprofit organizations have taken action. &



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