

Nonprofit Navigator

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Do you have to file for exemption for every affiliate? By Colette Kamps, CPA

A nonprofit organization may be involved in creating affiliate closely related entities for a variety of reasons. Is it really necessary to file the long, extensive Form 1023 to apply for tax exemption with the IRS for each and every one? Maybe not. The group of related nonprofit organizations may qualify for a group exemption with the IRS. You may be able to request this exemption for newly formed affiliates that may even enable you to file one consolidated Form 990. That could make your life simpler.

Group exemption requirements

First, the organizations must be very similar to each other in terms of structures, purposes and activities. The affiliate entity can't only be related to the original entity by common board members and/or common control.

There must be one "head", or main, organization (which has obtained approved tax exemption) that supervises or controls all the chapters or subordinates that are part of the group. The main organization's control must be clearly defined in the relationship. This is necessary to ensure that affiliates operate in the same way, with the same mission and program activities. This is why affiliate entities do not need to apply separately for tax exempt status. They're already expected to be so similar to the "head" organization, so they don't need to go through the same application process.

How to obtain a group exemption

You can simply submit a request at the same time you are submitting Form 1023 for the "head" organization. Or, if the need for group exemption occurs later, you can send a letter of request to the IRS. It needs to provide information that verifies the existence of the relationship with the affiliate(s). A sample copy of the uniform governing documents adopted by the affiliates should be included, as well as: a description of the purposes and activities of the affiliates (to prove that they are basically the same as the head organization), affirmation by an officer about those activities, a statement that each affiliate has furnished written authorization to the central organization, a list of all affiliates, affirmation that no affiliate is a private foundation and a list of contact information and the employer ID number for each affiliate.

Head organization responsibilities

The head organization is responsible for ensuring that affiliates continue to qualify as exempt, verify that any new/added affiliates are exempt and updating the IRS on an annual basis about any changes. The updates should include changes in purposes, character or method of operation of the affiliates, as well as lists of affiliates that have changed their names, are no longer included or are new to the group. Once the IRS approves the group exemption, a consolidated Form 990 can then be filed that includes the balances and transactions of the head organization and all the affiliates.

If you have any questions, Colette can be reached at (480) 839-4900 or ColetteK@hhcpa.com.

Fast Facts

- 150+ team members
- 50% are CPAs
- Arizona's largest locally owned accounting firm
- Your money stays in the state
- Well-known leader in CPA services for AZ nonprofits
- Nonprofit CPAs volunteer on boards and committees for local charities
- Your team provides complimentary CPE and customized presentations for nonprofit boards and staff

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Are you ready for the procurement standards? By Sharlynn Garza, CPA

If you currently receive federal funding you are most likely aware that back in December 2013 the Office of Management and Budget (OMB) issued the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. This new standard is most commonly known as the Uniform Guidance. One of the biggest changes of the Uniform Guidance relates to the

procurement standards.

All the administrative requirements under the Uniform Guidance were made effective on or after December 26, 2014, except for the requirements related to procurement. Because of the significant changes in the new procurement standards, the OMB allowed non-federal entities the option to delay its adoption of the procurement requirement for two years. Then again in May 2017, the OMB further extended this deadline one additional year. The final implementation deadline is December 26, 2017. This means that for non-federal entities with a December year-end, the procurement standards are applicable beginning January 1, 2018, and are applicable July 1, 2018 for non-federal entities with a June year-end.

If your entity was able to adopt the procurement requirements by the original deadline, then there is nothing further you need to do. You should be set. For those entities that elected to delay the adoption of the new procurement standards, remember that you will need to document the decisions to delay. This should be included with your procurement policy.

If your entity is subject to a Single Audit, your auditors will most likely be reviewing your procurement policy to ensure it is in-line with the requirements in the Uniform Guidance, including documentation of the deferral adoption. They may also test the application of the standard – whether your entity is following its policy.

There are no more additional extensions issued by the OMB. For December year-end entities, your time is up. For entities with fiscal year-ends, your time is coming to an end soon. Are you ready for the new procurement standards?

If you would like further information on the actual procurement standards, this can be found at 2 CFR 200.317 through 200.326. Keep in mind that this may require revisions to your current written procurement policy.

If you have any questions, Sharlynn can be reached at (480) 839-4900 or SharlynnG@hhcpa.com.



Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.