

VII – Operational Notes, Finances and Legal Considerations

In addition to engaging their local Princetonians, regional officers also conduct the business of operating their association. This section of the handbook covers topics related to legal and financial responsibilities and requirements.

A. Annual Reporting

Regional officers are encouraged to be in regular communication with the Regional Affairs staff of the Alumni Association Office to keep the University aware of what is happening within each association. In addition, the regional president or ranking officer will be asked to submit an annual report of association activities and an updated leadership roster. These are usually mailed in the summer; prompt submission is hugely appreciated! A sample of the regional association annual report can be found in **Form E**.

B. Alumni Council Dues

Every fall, all active classes and regional associations are requested to pay dues to the Alumni Council. A dues request letter will be sent from the Alumni Council treasurer to the regional association treasurer, which will instruct you as to where funds can be sent. Dues help fund a wide variety of special events and projects that support volunteers and the greater alumni body, including:

- periodic Leadership Assembly weekends on campus for class and regional association officers
- the Alumni Council's Annual Meeting and the Old Guard Luncheon at Reunions
- the annual Service of Remembrance on Alumni Day honoring Princetonians who died in the previous calendar year
- the Reunions reception honoring three winners of the Award for Service to Princeton
- special projects taken on by the Alumni Council's standing committees

The dues rate for regional associations is **85 cents per dues-paying member with a \$70 minimum**. The dues rate has stayed constant since 1995, though it is subject to periodic increases.

C. Constitution and By-Laws

All associations are strongly advised to operate under the aegis of a constitution and by-laws that establish rules of local leadership and operation. If you are unsure whether your regional association has ever completed and filed this paperwork, please contact the Regional Affairs staff; if not, a template constitution and sample by-laws can be provided. One sample set of by-laws is also provided in Appendix M.

D. Federal and State Tax-Exemption Status

Approximately half of Princeton's regional associations have completed the process to establish their legal status as a non-profit subordinate organization of the University's 501(c)3 group tax-exemption with the U.S. Internal Revenue Service. Associations that are part of this group exemption receive individual Employee Identification Numbers for their organizations, but they are considered to be part of the separate tax-exempt organization, Princeton University. Benefits of participation in the group exemption include:

- elimination of the requirement for each association to file its own Form 990 with the IRS (see section E below)
- coverage under the University’s insurance policy for alumni organizations (see section G below)
- tax-deductibility of the association’s membership dues, as well as other gifts and financial contributions (see Section VII-F for clarification of what contributions qualify for tax-deductibility)
- tax-deductibility of volunteers’ un-reimbursed expenses (including mileage, as determined by the current IRS rate per mile) incurred in the course of providing service to the organization (Note – expenses incurred for merely attending a function are not tax-deductible)

To determine whether your association is one of those included in this group exemption, please contact the Regional Affairs staff.

For a variety of reasons, some associations chose to obtain 501(c)(3) status independently of the University. These associations may also qualify for tax deductibility of membership dues and other donations; however, the association then assumes responsibility for filing Form 990 with the IRS and independently obtaining insurance coverage for the association and its activities.

Some states will allow regional associations (either as part of the University’s group exemption or as independent 501(c)(3) entities) to qualify for state sales tax exemption. Regional officers can check with their individual state governments to determine whether their particular state offers this.

E. Filing of Tax Returns

The University will prepare a single “group” return on behalf of all alumni organizations (classes and regional associations) that are part of its group exemption. The information provided will be based upon annual financial reports from each group. (A sample financial report and instructions for completing it can be found in **Report A** and **Report B**.) Princeton University’s fiscal year ends June 30; alumni organizations should complete and submit their financial reports by no later than August 15.

If your regional association is recognized by the IRS as part of the University’s group return, but the University does not receive your financial report, the IRS will be notified that this association is not included in the group return. The association is then responsible for filing its own Form 990 if its revenues exceed \$25,000, and if it does not submit this form, penalties may be charged by the IRS. Beginning in 2008, every association not included in the group return (Form 990) will be required to complete an “E-Postcard” filing with the IRS each year.

F. Guidelines Concerning Tax-Deductibility of Donations and Dues

Regional associations that are either part of the University’s 501(c)(3) group tax-exemption or independent 501(c)(3) entities often wish to promote the fact that dues and contributions to the organization are tax-deductible. However, this is not always the case. Here are some general guidelines:

- Dues or donations are wholly tax-deductible if they do not provide any “goods, services, benefits or privileges” of substantial value in return for the contribution.
- Under the IRS regulations governing *quid pro quo* gifts, if a donor or dues-payer receives “goods, services, benefits or privileges” (hereafter referred to as a “premium”) of substantial value in exchange for their contribution, the value of the charitable deduction must be reduced

by the “fair market value” of the premium.

- Fair market value (or FMV) may or may not be equal to the retail cost of an item. For instance, a scarf that retails for \$20 would likely have a FMV of \$20. But if an association holds a fundraiser dinner event and charges \$300 per ticket, but only provides \$100 worth of benefits and goods (such as food and vendor rentals), the FMV of that dinner would be \$100.
- If the FMV of the premium is *insubstantial*, then the charitable deduction would not be reduced. There are several categories of insubstantial value:
 - **Small Premiums** - Items utilizing the University logo (such as a scarf) will be considered to be of insubstantial value (a retail or fair market value no greater than \$9 per IRS standards) if the dues payment is at least \$42. (For example, when a scarf selling for \$7 is given in exchange for a dues payment of \$50, then the entire \$50 is tax deductible. However, if the same scarf is given with a dues payment of \$25, only \$18 of the dues is tax-deductible.)
 - **Large Premiums** – In exchange for contributions, a charity may provide premiums with a total FMV up to 2% of the amount of the total contribution with a total cap of \$89, which is reached at a contribution level of \$4,450. For instance, if an alumna agrees to sponsor a student group performance by contributing \$5,000 toward the cost of a theater rental, and the association gives the sponsor a DVD of the performing group that retails for \$25, this would be an insubstantial premium and her charitable deduction would not need to be reduced.
 - **Membership Benefits** – It is permissible to offer limited benefits to donors and/or dues-paying members in exchange for annual contributions of \$75 or less. Qualifying benefits include rights or privileges that can be exercised frequently, such as free or discounted admission to facilities or events, and/or free or discounted admission to “members-only” events where the per-person cost (not including overhead) is less than \$9. Special privileges without inherent value associated with the payment of dues or donations—such as priority seating at special events, or the listing of names in a program or newsletter—are considered to be “insubstantial” by the IRS and do not require a FMV deduction.
- For tax purposes, all dues payments or donations larger than \$250 and any donation that is made in cash should be acknowledged in writing for a donor to obtain a tax deduction. A written acknowledgement is also required if a premium is received in exchange for a contribution in excess of \$75.
- If written acknowledgement of dues payment or a donation is sent and no premium was distributed, the acknowledgement should include the phrase “No goods or services have been provided in connection with this gift/donation/payment.” If a premium was exchanged, then the receipt must include a description of the premium with a good faith estimate of its FMV.
- Fees paid to attend or participate in most regional association events—those that are simply seeking to recoup event costs—are not tax-deductible. If an association wishes to conduct a fundraising event for itself or one of its signature programs, then only the portion of the event fee above and beyond the FMV of the function would qualify for tax-deductibility.

The Regional Affairs staff members, as well as the University’s Treasurer Office and General Counsel, are happy to answer any further specific questions that may arise on this subject.

G. Maintaining a Regional Association Treasury

As outlined in the “regional treasurer” role description in Section III of this handbook, this individual is typically responsible for maintaining the association’s finances. Here are recommended procedures and tips for treasurers:

- The treasury typically consists of an operating account established at a bank or other financial institution in the legal name of the association. The treasury may not be commingled with any other funds (in particular, the personal funds of any member or officer).
- At least two officers (such as the treasurer and president) should have access to initiate transactions on the account, so that association business can continue uninterrupted even if one officer is indisposed or out of contact.
- Make the financial institution aware of the tax-exempt status of the association, when applicable. The bank will likely require the association to demonstrate this through the provision of its IRS-issued employee identification number (see section D above), IRS determination letter, and other documentation, such as a constitution or a letter from the University.
- Some associations may wish to create additional savings or investment accounts separate from the operating account, so that a treasury balance not needed for day-to-day operating expenses can earn interest, typically in a money market fund. In part or whole, the treasury may not be invested unless the organization's officers have given approval
- "Speculative" investments are not permitted. This includes anything risky (i.e., options and derivatives), anything that may lead to tax problems (i.e., tax shelters), and/or anything that creates or gives the appearance of a conflict of interest.
- Some associations may wish to create additional special accounts for the purpose of funding specific projects, such as the schools committee or Princeton Prize award ceremony. Separate bank accounts are usually established when contributions for this purpose are solicited separately from dues, so as to ensure the funds are only used for the intended purposes.
- Please note the following financial restrictions on all alumni classes and regional associations:
 - Outside of dues payments, gifts to the organization must be either unrestricted or restricted to a purpose that is of a current nature. Endowed or permanent gifts are not to be accepted by alumni class organizations without involvement of the Office of Development.
 - Gifts to alumni organizations do not qualify for Annual Giving or other credit.
 - Student or any other kind of loans are not permitted.
 - Contracts to borrow money other than from Princeton University are not permitted.
 - Organization funds may not inure to the benefit of any member, trustee, officer or other private person.
 - Organization funds may not be used to aid needy members of the organization or their families.
 - Organizations may not use their funds to influence legislation, nor may they provide assistance for a candidate for any public office (local, state or national).
- Suggested accounting procedures are available in **Report C**.
- Financial records supporting all receipts and disbursements for a fiscal year must be kept by the organization for at least four years, as the statute of limitations for tax return examination by the IRS is three years from the filing of the return (which could be as long as four years from the end of the fiscal year). In addition, the University (through the Internal Audit Department) reserves the right to review and inspect the organization's books and records, as it does for all University departments and subsidiary organizations. The following documents should be retained: bank statements, deposit slips, paid invoices, brokers advices, Forms 1099, and documentation supporting payments to officers and others who provide services to the organization for out-of-pocket expenses.
- If questions arise about any element of financial organization, please contact the Regional Affairs staff at the Alumni Association Office, who will work in conjunction with the University Controller and General Counsel's Office to resolve issues as quickly as possible.

H. Insurance Coverage

Princeton University provides coverage under its insurance policies (including Trustees and Officers, general liability and automobile liability) to “officially-related” alumni organizations, which are those groups which are members of the University’s group tax-exemption. For further explanation of coverage and benefits, please see **Appendix N** and **Appendix O**.

I. Adherence to Princeton University Policies

As detailed throughout this handbook, there are a few general Princeton University policies and restrictions that all of its alumni organizations are expected to follow:

- Contact information for Princetonians (alumni, parents, students, etc.) may only be utilized for official business (see Section V-G).
- As befitting Princeton University’s educational non-profit status, any activity related to political campaigning or fundraising for any non-Princeton entity is strictly prohibited.
- All Princeton entities must adhere to the University’s non-discrimination statement, which can be found online at <http://www.princeton.edu/pr/style/#d>.

J. Relationship between the Office of the Alumni Association and Office of Development

The Office of the Alumni Association handles matters related to Princeton alumni relations except those involving fundraising, which are coordinated through the Office of Development. Questions about fundraising, including Annual Giving and regional scholarships, should be directed to the Development Office; questions about all other regional business should be directed to the Regional Affairs staff of the Alumni Association Office. Contact information for the Development Office can be found on its Web site at <http://giving.princeton.edu/contact/>.

K. Office of the Alumni Association Resources

The Office of the Alumni Association, in particular the staff members within the Regional Affairs team, is available and eager to assist regional officers in the operation of their associations. Please do not hesitate to contact the office about any questions that arise after reading this handbook or in the course of day-to-day operations.

One final note – this handbook is intended to be dynamic, evolving to serve your needs. Please feel free to contact members of the Regional Affairs staff and the Committee on Regional Associations if you have suggestions to improve this resource. We welcome your notes on programs or communication strategies that worked particularly well for your local association, ideas for additional sections or appendices, or input about areas that need expansion and further clarification.

