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# ASSOCIATION CHIEF BUSINESS OFFICIALS (ACBO) 2019 SPRING CONFERENCE

## All About Auxiliary Organizations

*5/20/2019*

*PRESENTED BY:*


Eileen Cichocki, Christopher Fallon &  
Eileen O'Hare-Anderson

# All About Auxiliary Organizations

Association of Chief Business Officials (ACBO) Spring Conference | May 20, 2019

Presented by: Eileen Cichocki, Christopher Fallon and Eileen O'Hare-Anderson


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### Agenda



- Purposes and Benefits of Auxiliary Organizations
- Differences from Independent Foundations
- How to Establish Auxiliary Organizations
- Regulations on Auxiliary Organizations' Activities

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### Mendocino College



- Established in 1973
- 3,000 FTES
  - 7,000 Headcount
- Large, rural service area
  - 3,200 square miles
  - 150,000 total population
  - Located in Ukiah, population 15,000

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**Mendocino Foundation**

- Established in 1984
- Auxiliary Organization
- \$10.8 million in assets
- \$270,000 in scholarships annually
- \$2.1 million in scholarships since inception



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**Auxiliary Organizations**

- Separate legal entities from District
- Provide supportive services/programs to District
  - Title 5, Section 59259
- District has limited control over auxiliary organizations

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**Services and Programs to Support Districts**

- Student association or organization activities
- Bookstores; food and campus services
- Loans, scholarships, grants
- Workshops, institutes, conferences, federal programs
- Facilities and equipment
- Alumni activities
- Supplementary health services
- Gifts, bequests, devises, endowments, and trusts
- Public relations programs

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**Independent or Auxiliary** 

- Independent
  - Exactly that
  - District no authority over decisions
  - District can enter into contracts with an independent foundation
- Auxiliary
  - District CEO responsible to ascertain propriety of all expenditures
  - Foundation board holds decision-making authority
  - Ultimate remedy is for District to revoke organization's status as an auxiliary

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**Differences Between Independent and Auxiliary Organizations** 

- Purposes
  - Auxiliary - Promote or assist District
- Receipt of gifts, funds, property
  - Auxiliary - Use for benefit of District
- Permissible functions
- Audit requirements
  - Auxiliary - Provide audit report to District

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**Differences Between Independent and Auxiliary Organizations** 

- Board of Directors
  - Auxiliary – approved by District's Board
- CPA and attorney services
- Responsibility for expenditures
  - District must ensure auxiliary expenses are proper
- Reimbursement of costs
  - Auxiliary – reimburse District for services

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**How to Establish an Auxiliary Organization** 

- District prepares and adopts Implementing Regulations
  - Chancellor's Office must approve
- Auxiliary organization must update governing documents
  - Master Agreement
  - District Board approves

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**Case Study** 

District currently has an Independent Foundation that wants to become an Auxiliary Organization.

***What steps must the District take to convert the Foundation into an Auxiliary Organization?***

***What steps must the Foundation take?***

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**Activities of Auxiliary Organizations** 

- Fundraising
- Gifts and Donations
- Lobbying Activities
- Raffles

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**Fundraising**



- Permissible function
- Auxiliary organizations may conduct fundraising for:
  - Scholarships
  - Capital projects
  - Grants for campus needs
- Includes events, donations, gifts, raffles
- Auxiliary responsible for expenses

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**Case Study**



Foundation, an auxiliary organization to the District, seeks to raise funds to support scholarships to the District's arts program. Five District employees spend two hours each assisting the Foundation with its fundraising efforts during the work day.

***Must the Foundation reimburse the District?***

***If so, how much?***

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**Gifts and Donations**



- Foundation may seek out and accept gifts and donations
  - For District's and students' benefit
- Donations in exchange for value
  - Quid pro quo donations
- In-kind donations
- Auxiliary organization provides donation acknowledgments when needed

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**Case Study** 

An auxiliary organization offers a one-hour cooking lesson with a professional chef in exchange for the first \$500 donation it receives. The chef usually provides these lessons for \$100.

***What is a good faith estimate of the lesson's fair market value?***

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**Case Study** 

For a contribution of \$1,000, an auxiliary organization will provide an evening tour of a museum conducted by a well-known artist. The artist does not provide tours on a commercial basis, and museum tours are normally free to the public.

***What is a good faith estimate of the tour's fair market value?***

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**Support for Bond Campaigns** 

- Districts may not urge support or defeat of ballot measures
- But - Auxiliary organizations may:
  - Elect to be subject to IRC §501(h)
  - Use % of Exempt Purposes Expenditures
    - 20% of first \$500,000
    - 15% of next \$500,000
    - 10% of next \$500,000
    - 5% over that amount, up to a \$1M maximum

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**Case Study** 

Foundation, an auxiliary organization, elects to be subject to IRC, § 501(h). It wants to send out mailers, work the phones, and offer other support for its District's upcoming bond measures. Foundation's annual exempt purposes expenditures are \$1,000,000.

**Can Foundation offer this support?**

**How much may Foundation spend on lobbying?**

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**Raffles** 

- Districts prohibited from holding raffles
- But auxiliary organizations may be eligible to hold raffles
  - Must be nonprofit organization
  - Exempt from taxation by State
  - In existence at least 1 year before raffle
- Must keep 90% of raffle receipts

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**Raffles** 

- DOJ registration and reporting requirements
  - Do not apply to 501(c)(3) entities
  - But likely apply to auxiliary organizations
- Must comply with annual filing requirements for raffles

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**Case Study** 

Foundation, an auxiliary organization of the District that was created 6 months ago, will hold a raffle. Foundation intends to sell raffle tickets on its website and is offering 40% of the raffle amount to the winner.

***May Foundation hold this raffle?***

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**Thank You!** 

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