

## Diocese of Covington

### Policies & Procedures Manual

Section: Compliance – Laws and Regulations

Policy: Scrip Programs

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#### INTRODUCTION

Many parishes throughout the country utilize Scrip as a fundraiser. Parishioners purchase scrip from the parish, which they then use at local stores such as JC Penney, Kohl's, K-Mart or Kroger's. Scrip is also commonly used to pay utility bills. There are literally hundreds of businesses nationwide that participate in a scrip program. When parishioners purchase items with scrip, the parish receives a small percentage as the fundraiser contribution.

#### PROCESS

People order scrip from the parish, which in turn orders scrip from a company who specializes in providing scrip. The scrip then arrives at the parish to be picked up by or distributed to parishioners. Scrip can be an excellent fundraiser if it is properly handled and safeguarded. Since scrip is an alternative form of currency, it should be treated as cash. Accordingly, parishes should practice safe procedures in the handling of scrip.

#### PROCEDURES

The following procedures should be followed for all schools in the Diocese of Covington:

1. Volunteers should not take scrip home for delivery. Parishioners participating in the program should pick up scrip at the parish in a centralized location. Scrip can be sent home from school with a person's son or daughter if the person signs a waiver providing the parish permission to do this. A sample waiver is attached at the end of this policy.
2. Scrip should be stored in a safe, which is locked at all times. The safe should be kept in a non-obvious, secure area on the parish premises.
3. A large inventory of scrip should **not** be maintained. Scrip can be received from the National Scrip Center (or other scrip clearinghouses) in one day by airmail. Parishes should only order the amount of scrip which has been requested by program participants.
4. Adequate bookkeeping that tracks the purchase and distribution of scrip is required. At least two people should have dual responsibility for the maintenance of scrip records. When a parish receives an order of scrip, serial numbers should be recorded. In the event that scrip would be lost or stolen, the recording of the serial numbers would allow the parish to quickly identify which scrip was missing. Local stores could then be alerted to watch for the stolen scrip.
5. Scrip records should be audited or reviewed by the parish finance committee on a regular basis. Additionally, the scrip records should not be stored with the scrip, but in a separate area.

Scrip can be an excellent way for a parish to raise funds. To be successful, parishes must understand that scrip is a cash equivalent and should be treated with the same care as cash.

#### LEGAL IMPLICATIONS

Some schools in the diocese may have received incorrect information from Great Lakes Scrip Center or similar organizations stating that the Internal Revenue Service has changed its position regarding the conduct of scrip programs and that the proceeds of such programs can now be shared with participants based on the level of their participation (e.g. to offset a portion of the individual's tuition cost or the pay school fees for participant's children).

We have consulted diocesan legal counsel regarding the above claims. Our attorneys have researched this issue and have advised that there has been no change in the law or the interpretation of the law.

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Scrip programs continue to be legal – provided that the school or parish conform its program to the following guidelines. Note that the program must meet all four parameters:

- The program must be run by volunteers, not school personnel. No employees of a school, parish or diocesan institution can sell scrip.
- Participation in the program must be strictly voluntary.
- Proceeds must be deposited into and accounted for in the school's general fund. Proceeds may never be deposited into the parishes funds or accounts.
- Individual participants (or their families), cannot receive a share or be given credit (in any form) for the proceeds.

Failure to follow these guidelines could have income tax implications for participants and/or lead to penalties assessed against the school by IRS, possibly endangering the school's 501(c)3 status.

Lest anyone think that the IRS is not actively watching this type of activity, please see the newspaper article on pages 2 and 3 for the potential consequences of an illegally operated scrip program. Note that this case occurred relatively recently in Lexington, Kentucky and that there were fines levied against the offending organization.

If your scrip program is not adhering strictly to these processes, procedures and guidelines, it must be changed immediately to conform to the above requirements.



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Friday, Mar 19, 2008

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## Audits trouble Bryan Station High School boosters

By Valarie Honeycutt Spears  
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- The IRS has fined the Bryan Station High School baseball booster group \$61,000. It is the latest in a series of tax audits aimed at Fayette County parents who raise money for extracurricular activities.
- With a 2008-2009 budget of \$44,000, it is money the Bryan Station baseball group doesn't have, said club vice president Jimmy Boling: "It's a travesty."
- The Henry Clay band boosters paid a \$30,000 fine this year, and the Lafayette High School band boosters have appealed a \$9,000 fine.
- At issue is the longstanding practice of Fayette County booster clubs giving parents monetary credit for fund-raising, including working at bingo parlors and concession stands, car washes and candy sales. Often that credit is subtracted from the annual fees parents pay for extracurricular activities such as band and sports.
- In the Bryan Station case, the IRS also cited the fact that the club allowed another booster club to work with it at a bingo hall.
- "I think the IRS is shooting a gnat with a cannon," said Michael Reynolds, the Lexington attorney representing the Bryan Station baseball boosters.
- He also represents the Henry Clay High School booster council — a separate group from the band boosters. The booster council supports activities such as drama, ROTC and athletics. The booster council also faces an IRS penalty, but Reynolds declined to say how much.
- The Henry Clay booster council and the Bryan Station baseball boosters are appealing.
- The Henry Clay band boosters club paid the \$30,000 fine so the IRS would not go after individual families. There was a threat that the IRS would do so because the credits would be counted as income to the parents.
- There has been no report of the IRS making individual parents pay in any of the cases.
- "We have done some things that are technically wrong, but we dispute many of their findings," said Reynolds. "We are amenable to a reasonable settlement," but "this is absurd. There are going to be kids who won't be able to play and participate."
- Reynolds said that he's talked to groups from all Fayette County public schools and he thinks at least one organization from each school faces audits and fines.
- He said the fines are even more puzzling because the booster clubs in Fayette County have corrected the errors they made, including giving parents credit for work, and are now complying with IRS rules.
- Boling said the IRS is also seeking to strip the Bryan Station baseball boosters of the 501(c)(3) tax status given all non-profit groups. They would lose the charitable gaming license for bingo they say they need to fund the baseball program.
- Fayette County Schools pays for head coaches and band directors and some assistants, but most expenses for sports and extracurricular activities are left to the parents.
- With the \$44,000 in the current budget, Bryan Station's baseball booster parents hope to pay uniform expenses, field maintenance, baseball equipment, umpire fees, and travel and food for the players.
- The IRS says it is prohibited by federal law from commenting on individual cases.
- But IRS officials told attorneys and leaders with the Lafayette band boosters this year that the IRS is concerned about whether individual parents receive benefits or whether the fund-raising activities benefit the entire group of students.

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→ Giving parents credit to work off fees for which they otherwise would have to write a check was widely accepted until the fines began.

Fayette County Schools spokeswoman Lisa Deffendall said that booster clubs had had fund-raisers for years without a problem, so they were surprised at the IRS's position. The district essentially has no authority over the private groups, but it provides booster-club training that includes instruction on IRS regulations.

Fund-raisers, particularly bingo, help booster clubs raise hundreds of thousands of dollars for uniforms, trips and equipment and athletic fields.

Booster club officials say that no child who wants to participate but can't afford the fees is turned away. But many of the groups that have been audited worry that students will avoid activities if their parents can't pay the bills through fund-raising.

"They are putting the booster clubs out of business and it's hurting the kids," said Reynolds.

He said that in terms of bingo as a fund-raiser, IRS officials are appearing at state charitable gaming seminars to help educate parent volunteers.

Some parents have contacted the offices of U.S. Sen. Mitch McConnell and U.S. Rep. Ben Chandler. Both lawmakers have made inquiries to find out what laws and policies have given rise to the audits.

Jennifer Krimm, a spokeswoman for Chandler, said that various booster clubs in Fayette County had contacted Chandler's office. "The office," said Krimm, "has yet to hear back from the IRS."

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Reach Valerie Honeycutt Spears at (859) 230-5209 or 1-800-950-6397.

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## PERMISSION FOR CHILD/WARD DELIVERY OF SCRIP AND WAIVER OF CLAIM

I, \_\_\_\_\_ give permission to  
Parent/Guardian  
\_\_\_\_\_ to deliver scrip,  
Parish/School

which I have ordered from parish/school, to my child/ward, \_\_\_\_\_.  
Child/Ward

I understand that my child/ward will be responsible for the safe transport of the scrip from school to my home and certify that I have discussed the responsibilities associated with the transport of the scrip with my child/ward. I further understand that I have the option of personally picking up my scrip orders from the parish/school rather than having my child/ward transport it.

I agree that once the parish/school delivers the scrip to my child/ward that the parish/school is not responsible for any scrip which is lost, stolen or misplaced. I hereby waive any right of recovery that I may have against the parish/school for scrip which is lost, stolen or misplaced after it is given to my child/ward.

This agreement is effective for the \_\_\_\_\_ school year.

\_\_\_\_\_  
Parent/Guardian Signature

\_\_\_\_\_  
Date