

***Making Life Better
for the Many in Need***

TREASURER MANUAL



WELCOME

The club treasurer is the primary financial advisor of the club and serves as the custodian of all club funds. In this role, there are many duties related to the business operations of a Sertoma club. Although the club is a volunteer entity, the IRS views the club as a business, and its finances must be treated like one.

The primary responsibility of the treasurer is to track and report all money coming in and out of the club. This manual is designed to help you with the basics of this responsibility such as properly structuring a budget, accounting for all revenue and expenses, helping assure appropriate use of funds of operations and meeting all reporting requirements.

Remember that help is available! The Sertoma national board and headquarters staff are always available to answer your questions and provide needed materials and information.

For Those Who Wish to Serve, There is Sertoma!



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THE ROLE OF TREASURER

It is vital that club leadership realize they are operating a business, and without the income derived from members' dues, the organization will suffer monetarily, possibly to the point of self-destruction. Most membership organizations have an application fee and annual dues. Sertoma is not unique in this respect.

Charitable funds must be held and accounted for in certain detail for reporting purposes. The IRS requires that all public charities be able to account for the revenue and expenses generated as an exempt organization. This must be made available on demand to the IRS, Sertoma headquarters and even donors from the local community. Each Sertoma club must be able to show that charitable revenues are used for the club's charitable or exempt purpose.

TAX EXEMPTIONS & REGISTRATIONS

EIN (EMPLOYEE IDENTIFICATION NUMBER)

Each Sertoma club is required to have an EIN. This number is used by the federal, state and local governments, as well as the banking community, to identify a business entity. The EIN is used by the IRS in combination with an annual report from Sertoma to determine if a club is covered by the Sertoma tax exemption. Without an EIN to establish the link, the club is not legally a tax-exempt entity.

The requirements for qualifying for an EIN and tax exemptions begin during the charter process with the Petition for Tax Exemption forms. All clubs must then apply with the IRS for their EIN in order to be included under the umbrella of Sertoma's group exemption. Sertoma headquarters cannot obtain an EIN number for a Sertoma club.

To apply for your EIN, use IRS form SS-4. Once the IRS has assigned the EIN, the club must report it to Sertoma headquarters to be included on the listing given to the IRS each year. Without notification to Sertoma headquarters, the club is not legally part of the group exemption.

If your club does not know if it has the required EIN, please contact Sertoma headquarters. Sertoma staff can look up the information for the club. If an EIN is needed, instructions can also be obtained through the office.

How to Apply for an EIN

You can apply for an EIN via the IRS website, telephone, fax or mail depending on how soon you need the EIN

1. Apply Online

NOTE: This is a free service offered by the Internal Revenue Service at <http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>. Beware of websites that charge for this free service.

The internet is the preferred method to use when applying for an EIN. The online application is fast, free and user-friendly! To get started, go to www.irs.gov (keyword "EIN") and begin the interview-style online EIN application. This application includes embedded help topics, keywords and definitions so separate instructions aren't needed. The information you submit is validated during the online session, so once you've completed the application, you will receive your EIN immediately. You can then download, save and print your confirmation notice (feature not available to third-party designees).

The application is available during the following hours:
Monday – Friday, 6:00 a.m. to 12:30 a.m. Eastern Time
Saturday, 6:00 a.m. to 9:00 p.m. Eastern Time
Sunday, 7:00 p.m. to 12:00 a.m. Eastern Time

The online application process is available for all entities whose principal business, office or agency, or legal residence (in the case of an individual), is located in the United States or U.S. Territories. Additionally, the principal officer, general partner, grantor, owner, trustor, etc. must have a valid Taxpayer Identification Number (Social Security Number, Employer Identification Number or Individual Taxpayer Identification Number) to use the online application.

2. Apply by Telephone

If you don't have internet access, you can receive your EIN by telephone and use it immediately. When applying by phone, IRS suggests that you complete Form SS-4 before the call so that you will have all relevant information available. Call the toll-free EIN number (1-800-829-4933) between 7:00 a.m. and 10 p.m. local time, Monday through Friday.

The person making the call must be authorized to receive the EIN and answer questions concerning Form SS-4. An IRS representative will use the information received from you or your representative to establish your account and assign you an EIN. Write down the number you are given and keep it for your records.

3. Apply by Fax or Mail

You can receive your EIN by fax within four (4) business days. You can receive your EIN by mail within about four (4) weeks. See the IRS website for more specific instructions.

IRS TAX-EXEMPT STATUS: 501(C)(3) – CHARITABLE FUND

Sertoma has an IRS-designated 501(c)(3) exemption. Specifically, this exemption allows clubs to accept gifts and donations allowed under this IRC section to be tax deductible to the donor. The club must have its own EIN assigned by the IRS linking the club to Sertoma's GEN 5409 exemption.

Under section 501(c)(3) of the IRS Code, Sertoma is allowed to maintain this exemption to aid the handicapped, mentally retarded, underprivileged and other members of the community as the need arises, and for other qualified religious, charitable or education purposes. All fundraising involving any type of tax-deductible gift, most corporate matching gift programs, and, in most states, all charitable gambling requires the organization to hold a 501(c)(3) exemption. Specifics on how to manage charitable funds are provided in detail in the Management of Charitable Funds section of this Manual.

STATE INCORPORATIONS & REGISTRATIONS

All clubs should incorporate as a not-for-profit business within their state. Incorporation is also important in protecting volunteers from liability issues related to club activities. Many states and counties, as well as some municipalities, require registration by all not-for-profits doing fundraising from the general public. The requirements for both of these processes can vary greatly, so the treasurer should work closely with the club secretary to make sure that the club has all of the appropriate and up-to-date registrations required to operate the business of a Sertoma Club. Check with your state's Attorney General or Secretary of State office on local requirements.

Links to state websites can be found on the IRS website at <http://www.irs.gov/businesses/small/article/0,,id=99021,00.html>.

REQUIREMENTS & OBLIGATIONS

SERTOMA DUES & FEES

It is the responsibility of every Sertoma club to meet all financial obligations to Sertoma and, if required, to the Region. **All dues and how they are calculated are authorized by the Sertoma Board of Directors and cannot be waived or adjusted without Board action.**

Membership Dues

Both individuals and clubs are members of Sertoma. Clubs are billed \$175 for club dues each year on July 1. Clubs collect individual membership dues from their members. Each individual member's dues are paid quarterly in advance.

Sertoma dues are computed and billed to the club's account. The billings are sent to the club treasurer on July 1, October 1, January 1 and April 1 (or next business day if these dates fall on a weekend/holiday). The billing is based on the number of members on file at Sertoma as of noon Central Time the last business day of the previous quarter. This invoice is due to Sertoma upon receipt.

Region Fees

The individual membership number from the quarterly invoice is also used to calculate Region fees. This number is multiplied by the fee amount and remitted on Form 117: Quarterly Dues Statement. These fees may vary as they are set individually by Regions.

Sertoma Processing Fee

Sertoma charges a processing fee for each new member who is added to a club's membership roster. This fee includes the price of a New Member Kit. This fee does not apply to Life members, transfer members or former members added to a club roster within 90 days after the member is dropped from his/her previous club.

Club Application Fees

The club application fee is established by each club. This fee represents the amount a qualified candidate for membership must pay to the club when he or she applies for membership. This fee is used to cover the cost of the Sertoma processing fee and to defray the expenses involved in providing a new member with any materials and meals

provided by the club. Some clubs charge \$25 to \$50, depending on the need and preference. When there are concerns for the financial imposition this might place on a candidate, some clubs waive the application fee.

OTHER COSTS & TAXES

Club Liability Insurance

Clubs are required to have insurance that covers members and participants at all events. Sertoma extends blanket general liability insurance to all clubs in the United States and Canada. This cost is pro-rated to clubs each year based on the number of members on file when the policy renews (typically billed in September). For more information on the insurance program, please see the Sertoma Insurance Program under Club Information – Management & Leadership at members.sertoma.org.

Manuals

Sertoma regularly updates its club resources/manuals. These resources offer information on things like club operations, programs, awards, functions, etc. All manuals are available for free on the Club Resources page on the Sertoma website's Member Center.

Director & Officer Insurance & Fidelity Bonds

It is recommended that each club purchase a bond and possibly Director & Officer coverage for decisions made for the club. This may be purchased from a local insurance agent (check your club's membership to see if someone can assist you) or from the Sertoma insurance broker.

Sales Tax

Sales tax is a state-determined function and cannot be waived with only an IRS tax-exempt status. All clubs will have to pay sales tax unless the club applies for sales tax exemption from the individual state in which it resides. Sertoma legally cannot obtain sales tax exemption for our clubs.

ANNUAL REPORTS

AUDIT

At the end of each fiscal year, the club board of directors should call for a financial audit. This can be done by an internal committee of the club or an outside financial representative. The club treasurer should welcome this review to help substantiate all club expenses for filing all state and federal forms as required by the club's activities. The club treasurer must be prepared and have all documentation in a readily accessible location. This must be completed prior to filing the club's 990 tax return.

Form 990/ 990EZ (Tax Return)

IRS requirements state that any nonprofit organization that normally has \$50,000 in gross income must file a 990 or 990 EZ. This form must be submitted by the 15th day of the fifth month following the end of the fiscal year. Since the Sertoma fiscal year ends on June 30, the form must be filed by November 15 each year. An extension may be requested from the IRS. Many clubs forget to include dues in the gross receipts test; however, dues are considered income by the IRS and must be included in this calculation.

Be sure to include the club's EIN on the tax form, as well as the tax group exemption number (5409) linked to the EIN. If the club files a return without the group exemption number on the form, the IRS requires that the name "Sertoma, Inc." be the first name line on the form and that the club name be on the second name line.

If the club meets the requirements and does not file, the law provides penalties (including fines and imprisonment) for willfully not filing returns. Also, a penalty of \$20 per day, not to exceed \$10,000 or 5% of the gross receipts, may be charged when a return is filed late. All forms can be obtained from the IRS service center in your community or from irs.gov.

Form 990-N (e-Postcard)

If your gross receipts are normally less than \$50,000, you are required to electronically submit Form 990-N, also known as the e-Postcard. The Pension Protection Act of 2006 added this filing requirement to ensure the IRS and potential donors have current information about your organization. The e-Postcard is due every year by the 15th day of the 5th month after the close of your tax year. Since the Sertoma fiscal year ends on

June 30, the form is required to be filed by November 15 each year. You cannot file the e-Postcard until after your tax year ends. If you do not file your e-Postcard on time, the IRS will send you a reminder notice, but you will not be assessed a penalty for late filing.

Note: An organization that fails to file required e-Postcards (990-N) or information returns (Forms 990 or 990-EZ) for three consecutive years will automatically lose its tax-exempt status. The revocation of the organization's tax-exempt status will not take place until the filing due date of the third year.

Other Common Federal Filing Requirements of Exempt Organizations

Category/Form	Purpose	Reporting Period	Due Date
Employee Related:			
941	To report social security and income taxes withheld and social security taxes paid by the employer.	Quarterly	4/30 7/31 10/31 1/31
W-2	To report payment of wages, other compensation, income tax withheld, and social security and Medicare taxes withheld.	Annual	1/31 (to employee) 2/28 (to Social Security Administration)
W-3	To transmit W-2s to Social Security Administration.	Annual	2/28
940 or 940-EZ	To determine employer's liability for federal unemployment tax (FUTA).	Annual	1/31
5500 or 5500-C/R	To report information concerning employee benefit plans (e.g., pension, deferred compensation) maintained by the employer.	Annual	7/31 (or, if reporting on a fiscal year, the last day of the 7th month after the close of the plan year)
Independent Contractors and Lessors:			
1099-INT	To report interest payments of \$10 or more during a calendar year to unincorporated entities.	Annual	1/31 (to payee) 2/28 (to IRS)
1099-MISC	To report payments of \$600 or more to unincorporated entities providing services (e.g., legal, accounting, repairs); renting property to the organization; or receiving commissions, fees, royalties, or	Annual	1/31 (to payee) 2/28 (to IRS)

Category/Form	Purpose	Reporting Period	Due Date
	other nonemployee compensation from the organization in the course of a trade or business.		
1096	To transmit 1099s to the IRS.	Annual	2/28
Other Tax Returns:			
720	Used to report various federal excise taxes.	Quarterly	4/30 7/31 10/31 1/31
990-T	Used to determine liability for unrelated business income tax.	Annual	Generally, 15th day of 5th month after tax year-end
990-W	Used to calculate estimated tax payments due on unrelated business income and net investment income (for private foundations).	Quarterly	Payments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year; form is retained by taxpayer
4720	Used by Section 501(c)(3) organizations and their managers to report liability for tax related to (1) certain lobbying and political activities; (2) the payment of premiums on personal benefit contracts; and (3) excess benefit transactions. Also used by private foundations to report liability for certain excise taxes.	Annual	Normally 15th day of 5th month after tax year-end
Other Forms:			
W-2G	Used to report prizes awarded during or as a part of a charitable fundraising activity such as a raffle (prize must equal or exceed \$600).	Annual	Furnished to winner by 1/31 of the following year (to payee); 2/28 (to IRS)
W-9	Used to request the taxpayer ID number of the winner of a prize of \$600 or more.	N/A	Before prize is awarded
56	Used to notify IRS of a fiduciary relationship (e.g., when an organization becomes the trustee of	N/A	No deadline

Category/Form	Purpose	Reporting Period	Due Date
	a trust) so that the fiduciary receives proper notice from the IRS of tax assessments, etc., affecting the trust.		
945	Used to report income tax withheld from non-payroll distributions or payments (e.g., gambling winnings, backup withholding).	Annual	1/31 (or 2/10 if taxes deposited timely)
1098-C	Used to report to the IRS the contribution of a qualified vehicle that has a claimed value of more than \$500. Copy B must be furnished to a donor for attachment to the donor's income tax return. Copy B also can be used to satisfy the requirement for a contemporaneous written acknowledgment of the contribution.	Annual	2/28 to the IRS. If used as acknowledgment to donor, within 30 days of arm's-length sale of vehicle or within 30 days of date of contribution if vehicle will not be sold before completion of material improvements or significant intervening uses; of if vehicle will be transferred to needy individual for significantly less than FMV.
3800	Used to claim certain tax credits.	Annual	File with Form 990-T
4466	Used to apply for a quick refund of income tax if the organization overpaid its estimated tax by at least 10% of expected liability and \$500.	Annual	16th day of third month after end of tax year and before Form 990-T is filed
4506-A	Request for public inspection or copy of exempt organization IRS form.	N/A	No deadline
4562	Used to report depreciation and amortization expense. (Key Issue 15D)	Annual	File with Form 990 or 990-T
5768	Election/revocation of election by an eligible Section 501(c)(3) organization to make expenditures to influence legislation.	N/A	Election must be made within the first taxable year to which it applies. Revocation must be made before the first day of the tax year to which it applies.
6198	Used to report loss from an unrelated business activity subject to the at-risk limitation rules.	Annual	File with Form 990-T

Category/Form	Purpose	Reporting Period	Due Date
8282	To report disposition of donated property held less than three years and valued at more than \$5,000.	N/A	125 days after the date of disposition
8283	To support noncash charitable contributions.	Annual	File with Form 990-T
8300	To report receipt in a trade or business activity of \$10,000 or more of cash (reporting requirement does not apply to the receipt of charitable contributions).	N/A	15th day after receipt of cash
8697	Used to calculate the interest due or to be refunded under the look-back method applicable to certain long-term contracts.	Annual	File with Form 990-T
8822	Used to notify the IRS of a change of address.	N/A	No deadline
8868	To request extension(s) of time to file Form 990, 990-EZ, or 990-PF.	N/A	On or before 15th day of 5th month after tax year-end (initial request)
8870	Used to provide information on personal benefit contracts to IRS.	Annual	Charitable remainder trust: 4/15 Other entities: 15th day of 5th month after end of tax year
8886-T	Used to report participation in a prohibited tax shelter transaction.	Various	Various
8899	Used by charitable donee to report net income from qualified intellectual property to the donor of the property and the IRS.	Various	Last day of first month after close of donee's tax year.
8921	Used to report direct or indirect acquisition of certain insurance contracts.	Various	Various
TD F 90-22.1	Used to report a financial interest in, signature authority, or other authority over a foreign financial account when aggregate value exceeds \$10,000 at any time during the calendar year.	Annual	June 30

BANK & SERTOMA CLUB ACCOUNTS

BANK ACCOUNTS

Each Sertoma club must have a bank account. This account is to be the depository for all funds of the club. The account must be associated with the Club's EIN as assigned by the IRS.

If the club chooses to use two bank accounts, it should split the operations and sponsorship of the clubs into the accounts. All expenses for the operations of the club should be paid out of the operating funds, while fundraising, charitable distributions and program services are to be paid out of the sponsorship account. Both accounts must be opened under the same EIN.

CHECKS

The checking account is required by policy to have two signatures on file at the bank. This is a protective measure for both the club and the treasurer. All payments should be made by check for an audit trail. The treasurer is the custodian of the checkbook and should keep it in a secure location.

SERTOMA CLUB ACCOUNTS

All fees and dues charged by Sertoma are placed on the Sertoma club account. The club will receive an invoice for all charges placed on the account. Quarterly statements showing the activity on the account are also sent to the club treasurer, as long as the balance on the account is over \$2. All charges on the club account are due upon receipt of the invoice.

Note: The account number is the club number as assigned by Sertoma when the club chartered. Please put this number on all checks and correspondence regarding the club account.

NOT IN GOOD STANDING

Not In Good Standing is a classification placed on a Sertoma club when (1) its account carries a balance that is 60 days past due or (2) fails to provide required reports. This standing is authorized by the Sertoma Bylaws and expected by the IRS as part of Sertoma's group exemption. The IRS requires that all subordinate organizations be in good financial standing with the parent organization. Ramifications of being Not In Good Standing include: not being allowed to use Sertoma's group tax exemption, neither the

club or its members can vote in any elections; and not being allowed to participate in many award or other programs.

Letters are sent to club presidents once per quarter if the club is Not In Good Standing. Any club that is Not In Good Standing for 4 (four) consecutive quarters is subject to charter revocation by the Board of Directors. A letter notifying the club of this situation will be sent prior to any action being taken.

THE CLUB BUDGET

This section has been created with the input of the Sertoma legal counsel and auditor to recommend best practices. This is to assure appropriate use and clear accountability for the revenues and expenses of a typical Sertoma club. If a club feels some activity or function of the club does not fit into this model, please contact Sertoma headquarters to determine the proper reporting and accounting.

Each year – prior to the beginning of the fiscal year (for a Sertoma club, that is the period from July 1 through June 30) – the incoming treasurer will prepare a balanced budget for the coming fiscal year. A budget is a projection of all expected revenues and expenses for the club. The budget can be as detailed as the club wishes, but must at least show the major categories of revenues and expenses. These should include: all charitable and earned revenues, dues to Sertoma and the Region, newsletters, meeting expenses, awards, postage, delegate expenses, club supplies, and charitable-purpose fundraising expenses. A sample budget is provided for review.

Once approved by the club board of directors, changes in the total revenues and expenses for each category should not be authorized without an adjustment-to-the-budget vote by the club board of directors.

REVENUE

There are three revenue sources to include in the club's operating budget. Each of these represents a certain type of income:

- Dues revenue and application fees
- Investment and savings earnings
- Contributions, gifts and grants

Dues revenue is money received from the members to belong to Sertoma, fund the operations of the club and provide for all Sertoma national dues and Regional fees. This amount should be calculated each year as necessary to make sure the club's operating costs are being covered.

When calculating the dues amount, take the total projected expenses to operate the club (see expenses for detail on this area) divided by the number of members in the club. The number of members in the club should be reduced by approximately 10% to allow for members who do not pay their dues, but for whom the club still has operating expenses. This percentage should be looked at annually by the club to determine if the percentage of dues-paying members should be increased or decreased. Remember that keeping members on your roles just to keep the numbers up can sometimes be detrimental to the club's finances, as there are still expenses related to those members.

Investment and savings earnings encompass revenue received from earnings off any money the club has saved. This can be in the form of interest from a savings account, certificate of deposit or stock and bond investments. Earnings from invested funds are not restricted in use, according to the IRS, even if the money invested is restricted. Such earnings may be used to cover the cost of operations of the club.

Contributions, gifts and grants includes any revenue received from the club's fundraising activities, direct gifts to the club, or grants from other organizations. The club is allowed to run charitable fundraisers under its 501(c)(3) exemption.

These may or may not be tax deductible to the donor depending upon the nature of your event. It is important that the club understand the nature of the difference, as it has a legal obligation to appropriately track and report revenue from fundraisers. This briefly outlines the three categories of charitable gifts:

Tax-Deductible Donations

Gifts of cash or other items can be eligible for a tax deduction if the donors do not receive any service or item of value in return. Items considered insubstantial by the IRS must have a value of \$8 or less. For example, token gifts like coffee cups, listing in programs and recognition at the event most likely do not affect the deduction.

Partially-Deductible Donations

In some cases, the value of a service or gift received is such that it does affect the amount of the donation. The IRS requires that the organization holding the event tell the donor in advance the fair market value of their donation. Note that this is just the value of the donation and not the actual cost.

A good example is a dinner event. A donor pays \$100 to attend. The dinner and the speaker have a fair market value of \$60 per person. As such, the donor can only claim \$40 as a donation, not the full \$100. With some events, such as golf tournaments, the costs can be equal to or even greater than the gifts, making no part of the gift

deductible. See the Management of Charitable Funds section for greater detail on how to calculate fair market value.

Non-Deductible Gifts

When an item is purchased from a charity, the IRS has determined that the fair market value of the item is the amount of the gift. For example, the club sells holiday trees for \$50 that cost the club only \$25. In this case, there is no deduction, as the IRS would consider the \$50 as the fair market value of the tree. This would be the same for such items as candy sales or entertainments books.

The exception to this rule would be in the case of auctions. At an auction, the donor sets the price, not the charity, and as such can pay more than the fair market value for an item. If this is the case, the club should provide a receipt with the fair market value to the donor.

NOTE: Tax deductibility is determined by the tax status of the donor. A club **should not** tell a donor a specific donation is deductible. A club should let the donor know what portion of any gift is eligible for consideration as a deduction as defined above. It is up to the donor and his/her tax advisors to determine if the deduction is available to the donor.

EXPENSES

There are three categories of expenses you need to track:

- Club administration and general expenses
- Fundraising expenses
- Program services expenses/charitable distributions

Club administration and general expenses include the cost of running your Sertoma club as a business, even if the club does not perform any fundraisers during the year. Items relating to social activities would be included in this category. The main expenses are the Sertoma fees and obligations as described in the previous section (e.g., dues, processing fees, materials, etc.). The club also has costs for state registration, incorporation fees, fidelity bonds and director and officer insurance. Other expenses to include are for meetings, meals, social activities, newsletters and guest speakers.

Fundraising expenses are those related to the club's activities to raise funds through activities, direct solicitation or grant requests. These expenses can be broken down into the following categories:

Direct Expenses

These are the costs incurred to conduct a specific fundraiser. It is probably helpful if each event has its own project budget to allow the club to see detailed costs and revenue. Examples of direct costs include printing, food and beverage, facility rental, decorations, gifts and awards.

Indirect Expenses

Though a much smaller portion of the budget, these are critical budget items related to fundraising activities. These costs are typically paid each year but apply to more than one or all fundraising activities. The best example is liability insurance. If the club holds four events a year, the cost of the liability insurance should be divided across all four. This would only be for the general liability insurance; if specific insurance is required for one event, then that would be a direct expense to only that event.

Some clubs have significant financial investments in equipment that is used for several years to support fundraising events. In these cases, it is recommended that a percentage is set aside from each event so the funds are available when the equipment needs repaired or replaced. The equipment is a direct expense, but due to the nature of its use at multiple events over more than one year, you should treat it as an indirect expense and take a percentage out of each event. This is discussed in more detail in the Management of Charitable Funds section.

Program Services Expenses/Charitable Distributions

This is the most important category of expense in the budget as it encompasses how net proceeds from fundraising activities are used to support the club's charitable purpose.

Depending on your structure, the club may need to budget net proceeds from each event. As an example, the net proceeds from the bowling event go to Big Brothers/Big Sisters, and the net proceeds from holiday tree sales go to the Speech and Hearing Clinic. The club might also pool all net proceeds and make granting decisions based on the total funds available. Either method, or even a combination of the two, is appropriate depending on how the fundraising program is structured. Again, this is covered in detail under Management of Charitable Funds.

The club's support of Sertoma's Annual Fund should also be included in this section of the budget. If 100% Clubs solicit the individual members for their gifts, those donations should be shown as sponsorship revenue, not as dues, in the operations budget.

If a club has an endowment that supports the sponsorship program, it can budget an annual contribution to that fund. This should be a small percentage, or only if fundraising exceeds the budgeted goal.

Unless limited by a commitment made during the fundraising activity, not all distributions must go to another not-for-profit. Within limits, the club can provide for its own activities. One of the important aspects of the Sertoma club is to expand the number of volunteers doing service and to increase charitable support in the community. As such, the club may use funds to support training, development and recognition of volunteers and donors.

The club cannot use charitable funds to pay for any operational expenses, dues or related expenses (e.g., meals at regular club meetings) as these are not considered part of the charitable purpose.

Club's that run direct programs for the community, such as a hearing aid program, should reflect all expenses related to those programs under this budget area.

FINANCIAL REPORTS

A Sertoma club is a business. This requires that your club be able to record and report all of its revenues and expenses in a manner that is understandable to the board, its members and as an exempt charity to the public. As a public charity, anyone in the community may request to see the club's financial records.

Reports needed by a Sertoma club include:

- Bank statements
- Accounts receivable (list of delinquent dues) and accounts payable reports
- A financial report including income and expenses for both funds

These reports require a time commitment, so it is critical that the treasurer maintain appropriate records. This responsibility makes the treasurer one of the most important roles in a club. The good news is that, if maintained on a monthly basis, the time involved in preparing these reports is manageable by a volunteer officer. For clubs with significant budgets, the services of a CPA or accountant can prove to be an appropriate, even a needed, addition to the club's budget.

BANK STATEMENTS

Received monthly, this is a reflection of the activity in the bank account during a period of time. The statement must be reconciled to the checkbook upon receipt. Contact the bank immediately if you find a posting error.

FINANCIAL STATEMENTS

The treasurer is responsible for the accounting and reporting of all club revenues and expenses during the fiscal year. This information is to be reported at every board meeting and must be available to all members. The financial statement should show a comparison to budget on all income and expense categories so the club has an understanding of where it stands against projections for the fiscal year.

An Excel template and a sample report are available for clubs to use. They can be found on the Club Resources page of the Sertoma Member Center website.

ACCOUNTS PAYABLE/RECEIVABLE REPORT

The payables report is a detail of any outstanding expenses not yet paid by the club. This report must be approved by the board of directors prior to payment of the bills. After approval of this report is a great time for you, as treasurer, to write the check, as the second signatory should be at the meeting.

The receivables report is a detail of all revenues that have not yet been received. The most common element for a Sertoma club will be outstanding dues. This report must list the term of delinquency of the outstanding amount. The treasurer needs to work closely with the secretary to keep the roster current. Make sure that both the club and Sertoma rosters reflect the same dues-paying members.

Clubs can access an Excel template and a sample report on the Club Resources page of the Sertoma website.

MANAGEMENT OF CHARITABLE FUNDS

Club fundraisers come in many forms. They can be as simple as having a car wash or as complex as running bingo halls. No matter the type of fundraiser, there are common elements to all.

EXPENSES

Direct Expenses are the costs associated with the generation of revenue from a specific event. Examples of direct expenses would include:

- Printing of invitations, programs, tickets or other materials
- Facilities and equipment rented or purchased for one specific event
- Capitalized costs (percentage used) of materials, equipment or facilities acquired for use in multiple events or activities
- Food or beverages
- Prizes, gifts or other items given to or purchased by participants
- Paid labor; however, the value of volunteer hours given should be tracked
- Insurance or related legal fees
- Postage, delivery or shipping costs

Direct expenses are covered by the gross proceeds of the event. The resulting balance is the net proceeds, which are used to cover any indirect expenses (if required) and to fund the club's charitable and exempt purposes.

Indirect Expenses are expenses your club will incur in the process of supporting fundraising activities but are not directly related to a specific event. One example is recruiting, retaining and training volunteers who will support a number of fundraising activities. Another would be the cost to maintain financial records, audits and reporting requirements for a 501(c)(3) organization.

You can recover indirect expenses from a fundraising event, but unlike direct expenses, it is not clear as to which expenses or how much. The IRS has not set a fixed amount or percentage. Recovering indirect costs requires careful consideration and documentation to justify the use of fundraising proceeds for indirect expenses.

On the other hand, keep in mind that expenses related to club operations cannot be recovered as indirect fundraising expenses. To determine if an expense qualifies, ask these questions:

- Do these expenses support our ability to plan and manage the fundraising activity of the club?
 - If yes, then what percentage of these expenses would reasonably apply to this activity? (This is much like a capitalized direct expense; e.g., costs to recruit and train a new volunteer will likely yield support for multiple fundraisers and events.)
- Do the expenses provide a personal benefit to any individual greater than the direct benefit to the organization?
 - This is not always an easy question to answer. If you provide leadership training or fundraising training for a volunteer, he/she clearly benefits as an individual, but the primary benefit is to the organization.
 - The individual member may not obtain a direct personal benefit from the fundraising proceeds, such as having member dues or fees paid.

Capitalized Expenses

If the club acquires materials or equipment that is used for one or more events or activities, the costs should be prorated over the expected lifetime or usefulness of the items. This can be a relatively simple matter or may require the services of a financial professional. If your club has direct costs that are associated with multiple events, contact Sertoma headquarters for more specific direction. Some examples of capitalized cost include:

- Cooking, cooler or refrigeration equipment for a food service fundraiser
- Trailers or trucks used only for storing and hauling equipment for fundraising events
- Gambling equipment, for either actual or entertainment games of chance

Allowable Percentage of Expenses



There is no set allowance; however, there are guidelines based on the type of event or activity undertaken. The following are some examples:

- Personal solicitation of donors – 1% to 5%
- Special events – 40% to 75% (can vary depending if it is a new or repeat event)
 - Black-tie dinners
 - Golf tournaments
 - Wine tastings
 - Cook-offs
- Charitable gambling allowances and reporting are usually state dependent. If you are involved in these programs, be sure to clearly understand all applicable regulations and laws.
- If the club is doing direct mail or telemarketing, please contact Sertoma headquarters for additional information.

REVENUES

Allocation Decisions

How the club promotes a fundraiser determines the allocation of revenues for all expense categories or for charitable distribution. Before promoting an event, the club needs to plan in advance the need to allocate funds for expenses (direct and indirect), as well as the expected charitable distribution. As a public charity, the Sertoma club is responsible to the public to use the funds in an appropriate manner. Some examples of how promotion strategies link to the appropriate allocation of charitable revenue follow.

Example One: The Sertoma club is holding a fundraising activity. In event advertising it states “100% of the revenues of this event will go to support ABC Charitable Organization.” In this case, the club has said that all gross revenues will go to support one entity. This means the club would not be allowed to take out any direct, indirect or capitalized expenses from this revenue and must give all of the funds to this one organization. The expenses for this fundraiser must be paid for out of the operations or other fundraisers that are non-deductible to the donor.

Example Two: The Sertoma club is holding a fundraising activity. In its advertising, it is stated that “Proceeds go to support ABC Charitable Organization.” In this case, the club is allowed to take out the direct, indirect and capitalized expenses of the fundraiser, but can only donate the money to the one listed entity.

Example Three: The Sertoma club is holding a fundraising activity. In its advertising, it is stated that “Proceeds go to the support of the charitable programs/activities of the Sertoma club.” In this case, the club is allowed to take out its direct, indirect and capital expenses of the fundraiser and may use the money to support any part of the community as required at the time.

CHARITABLE DISTRIBUTION

A club may distribute its fundraising dollars to governmental agencies, schools, nonprofit entities and in some cases individuals. For any of these distributions, there should be a check written for proof of the distribution. If the club is restricting the use of these funds by the recipient, a letter stating that restriction must accompany the check. For example, a club giving money for the purchase of a new FM audio system for a classroom must send a letter stating this specific restricted use. Otherwise, the entity may use the funds at their discretion. While this is typically not a problem for small community agencies, this will help the club if there is ever a question of where its fundraising dollars have been used.

Distribution to individuals should be even more specific in use. It is recommended that a club not write a check directly to an individual, but to the medical provider, school or other entity for which the individual is requesting assistance. If the club gives the check directly to the individual, there is no guarantee the money is used for the requested need.

Example: Person in need of medical bills totaling \$5,000. This person has sent solicitations to many organizations in the community. The total money received by the person is \$6,000. If all of the funds have been sent to the person directly, there is no accountability (1) that the individual paid or owed the medical bill or (2) for how the extra \$1,000 was used. As a nonprofit entity, the club is required to account for all funds that are raised from the community.

Payments of scholarships to students should follow the same rules. According to the IRS, a student who receives scholarship funds for greater than his/her education expenses is required to report that money as income. All scholarships must be sent directly to the school to be applied against the student's account. The school is required to notify the student of any funds that are considered taxable. The club has no ability to find out if the student has taxable scholarship income or what portion of the club's scholarship funds fall under this category.

In some cases, direct gifts to individuals may be appropriate, such as in the case of support following natural disasters or a crisis where providing for a specific item or need is not appropriate or feasible. If a club would like to give support to a specific individual directly, they must meet all IRS rules and regulations; for disaster-relief guidance, see IRS Publication 3833.

STATE GAMING LICENSES

All states have different laws governing this area. Before the club decides to pursue any type of fundraiser that involves gambling, raffles or bingo, check with the office of the associated state department or attorney general for all required documentation, licensing and fees.

Many states that issue bingo licenses have specific requirements regarding who is allowed to work in the bingo halls and the use of revenues. In these states, only 501(c)(3) organizations are allowed to obtain the license, with the revenues used for charitable purposes in the community. All Sertoma clubs are incorporated 501(c)(3) organizations as long as the rules and regulations described in the Tax Exemptions and Registrations section of this manual have been met.

In conjunction with this, the workers of the bingo hall must be members or paid staff of the licensed 501(c)(3). The requirement of membership in the 501(c)(3) is defined as active dues-paying members or lifetime members who have paid for their membership. For this reason, honorary members of a Sertoma club are not allowed to work bingo halls in many states, as they are not official members of the parent 501(c)(3) organization (Sertoma). If your club is using honorary membership for people who are not active in the club and only work the bingo halls, this could be breaking state licensing laws. The ramifications of this could be severe. If you need assistance with this issue, contact Sertoma headquarters.

SUBSTANTIATION & DISCLOSURE REQUIREMENTS

QUID PRO QUO

If a person makes a gift to a charitable organization in excess of \$75 and receives something of material value in return, the charitable organization is to make a good faith estimate of the value of the item. The donor should be notified that only the difference between the fair market value of the item and the amount paid for it (if any) is deductible as a charitable contribution. This law comes into effect with many club fundraisers.

Example: A Sertoma club holds a golf tournament each year. The entry fee is \$250. The total value of the green and cart fees, goody bag and cocktail party is \$100. The disclosure statement the Sertoma club issues should state that of the \$250 received, \$150 is considered a tax-deductible contribution. Even if the Sertoma club is donated a portion of these items, the total value of the item received by the donor must be used in the calculation of the tax-deductible portion.

Example 1 – Club pays for all goods and services.

Item received	Club's cost per individual	Portion donor may not deduct
Green Fees	50.00	50.00
Cart Rental	20.00	20.00
Goody Bag	10.00	10.00
Cocktail Party	20.00	20.00
Total	100.00	100.00

Example 1a – Club was donated a portion of the goods and services.

Item received	Club's cost per individual	Portion donor may not deduct
Green Fees	50.00	50.00
Cart Rental	20.00	20.00
Goody Bag – donated	0.00	10.00
Cocktail Party – partial donation	15.00	20.00
Total	85.00	100.00

Note: If tickets are sold or special invitations are issued via a printed invitation or handout, this disclosure must also be included.

GIFT OF \$250 OR MORE

Donations of \$250 or more, whether from a corporation, business or individual, cannot be deducted without a receipt from the club treasurer acknowledging the total amount, purpose and date of the contribution. It should also include a statement of whether the donor received any goods or services in return as well as a description and good faith estimate of the fair market value of those goods or services. Please note that this substantiation is required of a \$250 or greater contribution at one time and not a total giving of \$250 or more over a period of time.

DEDUCTION OF VOLUNTEER EXPENSES OF \$250 OR MORE

Unreimbursed expenses incurred while performing volunteer duties, totaling \$250 or more per event, cannot be deducted on income taxes unless the volunteer has both receipts and a written substantiation from the organization [see *IRS guidelines, 1995, Section 1.170A-1(g)*].

This written acknowledgement from the organization, if needed, must contain a description of the services provided by the donor, the date the services were provided, whether or not the organization provided any goods or services in return, and a good faith estimate of those goods and services. Individuals who have volunteered for your club and have incurred volunteer expenses that were not reimbursed may be asking you for such substantiation.

If the unreimbursed expenses for an individual event are less than \$250, only receipts are required and the organization does not need to provide substantiation.

EVALUATION OF A FUNDRAISER AS A REPORT TO THE BOARD OF DIRECTORS

Financial evaluation of each fundraiser is key in determining if the event is successful. While some large fundraisers can have a negative return the first year, the following years should prove profitable if it is to continue. The club should evaluate the net effect (revenues minus expenses) of all fundraisers to determine their value to the club in helping the community.

An Excel template and a sample report are available on the Club Resources page members.sertoma.org.

RESOURCES

OVERVIEW

The Sertoma club treasurer has four main responsibilities:

- 1) Structure and report on a budget for the fiscal year
 - 2) Account for all revenue and expenses of the club
 - 3) Assure appropriate use of funds – operations and sponsorships
 - 4) Report to club members, club board, community, Sertoma and IRS all information as requested
- Sertoma carries a 501(c)(3) exemption for all clubs. For a club to be properly reported and allowed to use this letter, the club's EIN must be linked to this exemption on IRS records.
 - Each club must have a bank account. The account is required to have two signatures on each check.
 - The budget of the club, as set by the board of directors prior to the beginning of the fiscal year, is one of the most important documents the treasurer prepares. This tells the club how to report all expected revenues and expenses for the coming year.
 - There are certain fees and obligations that every Sertoma club is required to pay regardless of activities during the year. This includes things like dues to Sertoma, Region fees, processing fees and liability insurance.
 - There are sometimes other fees required by the state in which the club is incorporated to perform charitable fundraising. It is important that these be known to the club and budgeted correctly.
 - There are many types of fundraisers, but all have common types of expenses. The club can take out direct, indirect and capital expenses from its fundraising revenue.
 - There are certain disclosure requirements for certain tax-deductible gifts and donations to the club that are \$250 or more. The club is required by law to follow these disclosure rules on every fundraiser that falls under the category.
 - The club is required to file a tax return each year. Income above or below \$25,000 determines the type of return required by the IRS.
 - The treasurer must also inform the club board of directors of the financial position of the club through monthly financial statements, bank balance, accounts payable reports and accounts receivable reports.

TREASURER’S SAMPLE CALENDAR

Treasurer’s Sample Calendar	
Year-Round Reminders	Notes
Maintain club accounts and deposit all club funds promptly	
Reconcile club funds with bank statement monthly	
As Needed During Year	
Prepare financial reports for Board of Director meetings	
Before Your Year Begins	
Assist in annual club audit	
July	
Prepare dues statement for all members and distribute promptly	
Provide club secretary with checks for Sertoma & Region dues	
October	
Prepare dues statement for all members and distribute promptly	
Provide club secretary with checks for Sertoma & Region dues	
Prepare for preparation of IRS Form 990/990EZ or 990N (Due November 15)	
November	
IRS Form 990/990EZ or 990N due November 15	
January	
Prepare dues statement for all members and distribute promptly	
Provide club secretary with checks for Sertoma & Region dues	
Work with club secretary regarding receipt and filing of club incorporation annual report – provide check for fee.	
April	
Prepare dues statement for all members and distribute promptly	
Provide club secretary with checks for Sertoma & Region dues	

June/July	
Work with treasurer elect concerning all club financials and annual audit	
Prepare dues statement for all members and distribute promptly	
Provide club secretary with checks for division dues	