

## Finance

### **Bylaws**

Bylaws are an organization's consensus on how it should operate. Every organization should have Bylaws adopted by the membership and reviewed for relevance every few years. The MRSPA Bylaws, found in the annual *MRSPA Handbook*, could serve as a model, as could Bylaws from other locals.

### **Incorporation**

Some locals are incorporated. This can be a legal protection for a local's officers and Board, providing those individuals protection from some lawsuits. For most locals, legal challenges would be remote, and so incorporation is optional. If a local chooses to incorporate in the State of Maryland, it should consult an attorney for legal advice. Foundations (see later) must be incorporated. Details regarding incorporation are available from the State Department of Assessments and Taxation (see the website at [www.dat.state.md.us](http://www.dat.state.md.us)).

### **Employer Identification Number**

Every organization must have an Employer Identification Number (EIN). Banks require this number to open a savings or checking account. The EIN may be obtained from the IRS (see the IRS website, [www.irs.gov/businesses/small](http://www.irs.gov/businesses/small) ).

### **Tax Status**

Local associations operate as a tax-exempt, non-profit organization under Section 501(c) of the Internal Revenue Code. There are many different types of non-profit organizations. The status is granted by the IRS upon filing IRS Form 1024, Application for Recognition of Exemption (see the IRS website, [www.irs.gov](http://www.irs.gov) ). A 501(c) is allowed to represent its members on issues to a local board of education, county council or commissioners, or state officials, except for 501(c)3.

Contributions to a non-profit organization are tax-deductible by the donor only if the organization has been granted a 501(c)3 designation. If a local has a scholarship or other program for which it solicits funds, donations (to be tax-deductible) must be made to a 501(c)3 entity designated by the state and federal government as a Foundation. A discussion about foundations follows later.

### **Annual Federal Filing Requirements**

Organizations granted non-profit status must file a form (usually 990N or 990EZ) with the IRS every year by the 15th day of the 5th month after the close of the organization's tax year. For instance, organizations with a fiscal year ending June 30 have until November 15 to file its tax return.

Organizations granted non-profit status with revenue in excess of \$50,000 in a fiscal year must file a Form 990EZ. Access the form at [www.irs.gov/formsandpubs](http://www.irs.gov/formsandpubs) , on pages 6 or 7. Forms may be printed out and completed by hand or completed on a computer and then printed. Completed Form 990EZ should be mailed to the Department of the Treasury, Internal Revenue Service Center, Ogden, UT 84201-0027.

Organizations granted non-profit status with less than \$50,000 annual revenue should file Form 990N. There is no paper Form 990N; it must be filed on a computer. Access the form at <http://epostcard.form990.org> .

The form asks the following questions:

- Organization's legal name
- Any other names your organization uses
- Organization's mailing address
- Organization's website address (if you have one)
- Organization's employer identification number (EIN)
- Name and address of a principal officer of your organization (i.e., president, treasurer)
- Organization's annual tax year (fiscal year)
- Are your gross receipts normally \$50,000 or less?
- Has your organization terminated or gone out of business?

**Failure to file a Form 990N, or a Form 990EZ for three consecutive years will result in an automatic cancellation of your tax-exempt status by the IRS, and subsequent income will be taxable unless the organization reapplies for tax exempt status.** If a non-profit organization has failed to file, it has until November 15 of the third year to file one of these returns to maintain the tax-exempt status.

### **Annual Maryland Filing Requirements**

Locals that are incorporated must file the Annual Maryland Personal Property Return, Form 1, by April 15 of each year. The form is available from the website [www.dat.state.md.us/Sdatweb/personal.html](http://www.dat.state.md.us/Sdatweb/personal.html). All local organizations are non-stock corporations so there is no annual fee required as indicated on the form.

Foundations must register with the Maryland Secretary of State as charitable organizations. An annual renewal is required by December 31 for the fiscal year ended June 30. An annual fee may be required; it varies depending on the amount of charitable contributions received. Also, a foundation may be required to submit reviewed financial statements if contributions exceed \$100,000, and an audited financial statement if contributions exceed \$200,000.

### **Foundations**

For contributions to a local scholarship or other charitable cause to be tax-deductible for the donor, they must be made to a Foundation recognized by the IRS (under Section 501(c)(3) of the IRS Code) and State of Maryland. A local could go through the process of creating a Foundation, applying for 501(c)(3) status from the IRS by filing IRS Form 1023 and registering with the Maryland Secretary of State.

However, due to the additional cost and filing requirements of forming and maintaining a foundation, many locals have found that it is much easier to make arrangements for donations to an existing foundation in their community such as one created by the local school district or a community foundation. Many locals have made these arrangements that eliminate the need for incorporation and filing federal and state reports.

## **Record Keeping**

Local organizations are encouraged to keep pertinent records. The timeline for retention of those records varies:

1. Retain permanently:

All governance records - including the Articles of Incorporation and amendments, Bylaw and Board minutes. All audited financial records.

2. Retain for seven years: Accounts payable and receivable records. Bank statements and canceled checks. Expired contracts and leases.

No paper or electronic documents should be destroyed or deleted if pertinent to any ongoing or anticipated government investigation or proceeding or private litigation.

Boards of Directors may make exceptions to these rules and terms for retention.

## **Annual Meeting**

It is recommended that every *incorporated* local association conduct an Annual Business Meeting. Agenda items should include approval of the minutes of the previous Annual Meeting, Treasurer's Annual Report, Audit or Financial Review Report (if available), President's Annual Report, Election of New Officers, approval of a new Budget, approval of Revisions to the Bylaws (if appropriate), and any Unfinished Business followed by any New Business. These agenda items must adhere to any directives within the organization's Bylaws, i.e. a slate of Nominees for Office must be published X days prior to the Annual Meeting, etc.

Other agenda items may be incorporated as needed and appropriate.

## **Budgets**

Every local association is encouraged to prepare and adopt a budget annually to guide the organization fiscally. It is noted that budgets are guidelines and can be adjusted in a fiscally responsible way. Proposed budgets should include, for each line item, the previously approved amount, the actual amount received or expended, and the requested amount to be approved. Significant changes in the requested budget amounts should be explained in a set of Budget Notes that accompany the Budget proposal.

## **Treasurer's Reports**

It is recommended a Treasurer's Report be presented with some regularity at meetings of Boards of Directors, Executive Committees, and always at an Annual Business Meeting of incorporated local associations. The Treasurer's report should give a picture of the fiscal health of the organization as guided by the Budget and include any explanation of significant variations. The report should include actual line item amounts for the time period of the report as well as the budgeted amount. Treasurer's Reports should be filed for audit. (see sample, Appendix 1)

## **Further Advice**

If a local president or treasurer has questions about this information, he or she may contact the MRSPA Finance Committee chair or the MRSPA office (1-877-625-6782) for clarification. However, answers to legal or financial questions should be sought from professionals in those fields.

## Finance Appendix 1 Budget/Treasurer's Report

	BUDGET	INCOME	EXPENSE	BUDGET +/-
<b>INCOME</b>				
Membership Dues	12200.00	10800.00		1400.00
MRSPA Grants	45.00	44.79		0.21
Bank Interest	12.50	4.78		7.72
Luncheons	2500.00	1650.00		850.00
Program Fees	225.00			225.00
Trips	1500.00			1500.00
<b>TOTAL INCOME</b>	<b>16482.50</b>	<b>12499.57</b>		<b>3982.93</b>
<b>EXPENSES</b>				
Community Service	1250.00		675.00	575.00
Donations	300.00		100.00	200.00
Hospitality	225.00		200.00	25.00
Luncheons/Meetings	2500.00		1595.00	905.00
Membership	1200.00		773.20	426.80
Necrology/Recognition	350.00		275.00	75.00
Newsletter	7000.00		7250.00	-250.00
President	150.00		119.50	30.50
Scholarships	1000.00			1000.00
Supplies/Postage	200.00		98.50	101.50
Special Projects	500.00		238.50	261.50
<b>TOTAL EXPENSE</b>	<b>14675.00</b>		<b>11324.70</b>	<b>3350.30</b>
<b>NET INCOME</b>	<b>1807.50</b>		<b>1174.87</b>	

### NOTES:

The budget is adopted by the Board/membership before the fiscal year begins.

As funds are received by the Treasurer, the sum for each category is entered in the income column.

The Budget +/- column shows the difference between the budgeted and actual amounts.

As checks are written by the Treasurer, the sum for each category is entered in the expense column.

Net income is the excess of total income over total expense.

The budget estimates net income for the year at \$1,807.50; to-date in the example it is \$1,174.87.