



*Financial Responsibility & Reporting Policy for Chapters*

*Reporting Instructions to Accompany the Financial Reporting Tool and Financial  
Responsibility Guidelines*

January 1, 2011

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## Financial Responsibility & Reporting for Chapters

The chapter advisory council is responsible for the financial and fiduciary integrity of our chapters. As part of the fiduciary responsibility, regular financial statements and accounting of funds received, funds disbursed and the use of the funds is essential in maintaining the integrity of our status under the Internal Revenue Service 501(c)(3) status as a charitable non-profit organization.

The rules and regulations of DeMolay International provide for chapter financial operations and reporting in Sections 21 and 22. The 501 (c) (3) handbook also addresses the financial reporting requirements.

There is more transparency, in general, in society today about the operation of charitable organizations. With the advent of the Form 990 Post Card reporting system, all chapters must make annual reports with the IRS and do so in a timely manner.

Washington DeMolay has developed several tools for chapters to create a standardized format for reporting financial activities at the chapter level. The excel spreadsheet will be covered in the next section.

Other sections will cover use of employer identification numbers (EIN) for financial accounts, recommended best practices for checking and savings account records, use of group exemption forms, promoting payroll deduction charitable giving and matching programs and other useful information.

Please make use of this instructional guide and use the resources of the State Finance Director or Executive Officer to resolve and answer any questions or issues.

## Part I--Annual Financial Statement

Items you will need to assist in completion of the required annual financial statement:

- Beginning and Ending bank statements for all accounts of the organization
- A record of all income including the source and purpose of the income
- A record of all expenses and purpose of expenses for the year
- The chapter EIN
- The list of authorized account signers

The form also has embedded comments for each line that will provide a short summary of the information needed for entry on the financial reporting tool. Cells shaded green are automatically calculated by the tool and do not require a manual entry.

### Section One-Income Statement

The income statement is simply a report of income and expenses for a specific period broken down into reporting categories. This instruction tutorial will cover the annual financial report line-by-line. The form is created so that entries can only be made in designated cells of the spread sheet. The tool will automatically sub-total, total and calculate based on the entries you make in the form.

#### Line 2- Chapter Name

Enter the chapter name in this cell. If the chapter has multiple accounts, please complete a financial report for each separate account. If you have multiple accounts use this format in the chapter name:

Chapter Name/Account Name

#### Line 4-Account Balance

This is the beginning balance as of January 1 of the current year. This should also be the same number as the prior year report ending balance. This should come from the first bank account statement of the year.

#### Line 6-Chapter Income

Chapter income is money donated, earned or paid to the Chapter for use by the chapter to support the on-going chapter activities and purposes. This income is what your IRS level of reporting is based upon. To qualify for the 990 Post Card, the average chapter income must be \$25,000 or less. Money collected on behalf of WaDeMolay or DeMolay International as a pass through courtesy is not included in this section.

### **Line 8-Contributions**

This line is automatically populated from the second section of the workbook entitled “Contributions Worksheet” and requires no manual entry. The contributions listed in the second workbook will be discussed in Section 2.

### **Line 9-Chapter Event Fees**

Chapter event fees are those amounts charged to participants to cover costs or defray expenses for Chapter sponsored activities. It does not include fees for state events or convention.

### **Line 10-Fund Raising Event Fees**

This line item is the amounts raised through fund raising activities or events. It is important to keep a separate line item record for fund raising. This information is needed to prepare tax receipts for donors and contributors.

### **Line 11-Investment Income**

This line item is where earnings from investment accounts, savings accounts and other dividends are recorded. Do not record unrealized gains in investments. For questions, contact the State Finance Director.

### **Line 12-Other Income**

This category is for monies received that do not fit any other category. This category should be rarely used. Be sure to keep an explanation for these entries.

### **Line 14-Total Chapter Income**

This cell is automatically calculated from the entries made in lines 8 through 12. This is the income number that is used for reporting on the IRS Form 990.

### **Line 18-Pass Thru Income**

Pass thru income is monies collected on behalf of another entity (normally WaDeMolay or DeMolay International) which are not the property of the chapter. It is collected and passed to the other entity as a courtesy. The other entity is responsible for reporting it as income or a charitable contribution. These amounts **cannot** be receipted as charitable donations to the chapter.

### **Line 20-Advisor Fees**

These are payments collected from new or continuing advisors for registration as an adult volunteer or advisor. They are not tax-deductible. Advisor fees are the property of DeMolay International and do not require a vote of the chapter to be disbursed.

### **Line 21-DeMolay International Fees**

Fees collected on behalf of DeMolay International are recorded here. These amounts are the property of DeMolay International and are passed thru and do not require a vote of the chapter to be disbursed.

### **Line 22-Washington DeMolay Fees**

Fees collected by Washington DeMolay that are not for state events or convention. Fees for LCC and other awards may come under this category.

### **Line 23-State Event Fees**

All fees for attendance at state events are recorded in this section. State event fees are a pass thru. Because benefit is being derived, they are not tax deductible contributions.

### **Line 24-Convention/Conclave Fees**

Fees collected for attendance at Convention/Conclave are recorded in this category. This does not include donations from lodges and others for scholarships or support of the chapter. These are for fees collected from the participants or their parents. Again, because a benefit is derived, fees paid for participation are not tax-deductible.

### **Line 25-Other Pass Thru Fees**

Record any other pass through amounts that are not elsewhere categorized.

### **Line 27-Total Pass Thru Income**

This line is automatically calculated from lines 20 through 25.

### **Line 29-Total Income**

This line is automatically calculated from the sub-totals on lines 14 and 27.

### **Line 31-Chapter Expenses**

Expenses are the costs of chapter activities and functions to support the operation of the chapter. Expenses must be made within the guidelines of the rules and regulations of DeMolay International and consistent with the guidelines of charitable public supported organizations under IRS 501 (c) 3 rules. Expenses must be supported with appropriate documents and receipts and actions recorded within the minutes of the organization.

### **Line 33-Chapter Events**

The category records expenses related to chapter sponsored events. These events include sports activities, outings, ritual practices and the like. It does not include community service, fund raising or membership activities.

### **Line 34-Community Service Activities**

This category of expense is costs related to the support of community service projects of the chapter and members. This includes efforts to support Relay for Life, trash and litter pickup, and other community service projects.

### **Line 35-DeMolay International Fees**

These are fees paid by the chapter for services and awards available through DeMolay International. Not included are permanent equipment and furniture of the chapter such as rituals, robes and jewels. Scholarships or waivers of fee collections still requiring payment to DI are shown in this category.

### **Line 36-Entertainment/Refreshments**

These expenses are for food and refreshments for meetings. Also covered would be movie rentals, DJ fees and other entertainment type expenses.

### **Line 37-Fund Raising Expense**

These costs are any money spent to support and operate fund raising activities. It would include food, prizes and other supplies to provide goods or services in conjunction with fund raising. All fund raising activities involving solicitation of the general public requires Executive Officer approval. Certain types of fund raising activities also require licenses or permits, for further information contact the State Finance Director.

### **Line 38-Installation Expense**

Costs associated with installation of officers and the reception for the same.

### **Line 39-Insurance**

Any insurance other than the general liability insurance provided through DeMolay International such as fire, rental, or fiduciary bonding is reported in this category.

### **Line 40-Membership Activities**

Expenses related to membership promotions, contest and activities is recorded in this category.

### **Line 41-Miscellaneous Expenses**

Any legitimate expense not categorized elsewhere is reported in the miscellaneous category. Examples might be damage charges from activities.

### **Line 42-Postage and Office Supplies**

This category covers chapter administrative expenses such as postage and office supplies for maintaining the records, minutes and financial records of the chapter. Bank charges should also go in this category.

### **Line 43-Publications and Equipment**

Durable publications and books such as the rituals and monitors, as well as robes, jewels, rituals, costumes should be included in this expense category.

### **Line 44-Rent**

This category includes the rental of meeting or activity space.

### **Line 45-Utilities**

Payments for telephone, cable, garbage, internet and the like for use by the chapter or the pro-rated share if required by a temple association would be entered in this line item.

### **Line 46-Wa DeMolay Fees**

Any fees that are the obligation of the chapter to Washington DeMolay would be recorded in this category other than state event or convention/conclave fees. Pass thru fees are also not recorded in this area. Scholarships of any WaDemolay fees are shown in this category.

### **Line 48-Total Chapter Expenses**

This line automatically calculates from data entered in lines 33-46.

### **Line 50-Pass Thru Expense Transactions**

The next set of line items records the pass thru disbursements of funds collected as a courtesy for other entities and passed through to the other entity. The receiving entity has responsibility for the reporting of the income for IRS purposes.

### **Line 52-Advisor Fees**

This is the payout of advisor fees collected from advisors. If the chapter receives donations to cover these fees for the advisors, these would then be reported as regular chapter fees to DI. Only pass thru dollars are reported as pass thru disbursements.

### **Line 53-DeMolay International Fees**

Any fees collected on behalf of DeMolay International would show in this category. Remember DI funds do not require a vote of the chapter for disbursement. They are not the property of the chapter.

### **Line 54-Washington DeMolay Fees**

Like the DI fees, thru fees collected on behalf of Washington DeMolay for other than State Events and Convention/Conclave are reported here.

### **Line 55-State Event Fees**

Pass thru fees collected from attendees at state events or from their parents are reported in this category. This does not include convention/conclave fees.

### **Line 56-Convention/Conclave Fees**

All fees collected from individuals on behalf of the state convention/conclave are shown as pass thru disbursements. However, do not include amounts paid through scholarships funded through donations as they should be shown as a chapter expense.

### **Line 57-Other Pass Thru Fees**

Any other pass thru fees not categorized elsewhere.

### **Line 59-Total Pass Thru**

Automatically calculated based on data entered on lines 52 to 57.

### **Line 61-Total Expenses**

This line item automatically calculates and totals all expenses.

### **Line 63-Net Income (Loss)**

This field automatically calculates the difference between total income and total expenses and shows either a gain or loss based on the data. A gain is a positive number. A loss is bracketed in parentheses and means a negative number.

### **Line 65-Ending Balance**

This is another automatically calculated field. It calculates the beginning balance and either adds the gain or subtracts the loss to give you the account ending balance. This number should match the reconciled bank balance at the end of the reporting period.



## Section Two-Contributions Worksheet

The contributions worksheet helps to track charitable contributions to the chapter to help ensure that proper credit is given to individuals who may have tax reporting implications for charitable giving. Individual donors giving over \$250.00 are entitled to an acknowledgement of the contribution under the charitable giving guidelines.

Enter the names of donors giving \$250 or more on lines 5 through 20. If more lines are needed, you can create a separate worksheet to attach and report on line twenty the name as “See Additional Worksheet” and enter the sub-total from the additional worksheet.

Line 24 is where the total of all the contributions received that are less than \$250.00. It is a best practice to keep a record of all contributions regardless of size by name, date and amount. Contributions of \$250.00, and over, also require you to record contact information for a written acknowledgement letter.

Totals are automatically calculated and the final total of all contributions automatically rolls to the income statement without manual intervention.

## Section Three-990 Information

The third sheet in the workbook is used to collect the information necessary to complete the IRS Form 990 appropriate to the chapter financial condition.

The State Finance Director will complete all 990 forms and submit on behalf of the chapters in Washington Jurisdiction. The timely, accurate, and correct filing of these forms is essential to the maintenance and integrity of our 501 (c) 3 tax exempt status.

The IRS and the Urban League maintain a data base of non-profit organizations that most foundations, United Way, Employer Matching Programs and the Combined Federal Campaign rely upon to validate the tax status of designated recipients. Failure to be compliant can prevent donations from being sent through many of these programs.

## Section Four-Support Documentation

The financial report must be completed and sent to the State Finance Director by not later than February 1 of each year.

The following documents must be attached to the final report:

- ✓ Year-end Bank Statement
- ✓ Statement of the Audit/Finance Committee
- ✓ Contact information for donors contributing \$250.00 or more

## **Part II—Best Practices for Chapter Financial Responsibility**

The following is a summary of best practices for maintaining financial responsibilities within the chapter.

### **Section One—Employer Identification Numbers**

Each chapter must have an employer identification number (EIN) issued by the Social Security Administration for use in banking and financial transactions. Most chapters have these numbers. If you are not sure of the chapter EIN, contact the State Finance Director.

For new chapter or appendant organizations, contact the State Finance Director, he will help you obtain a number and assist in obtaining the group exemption status from DeMolay International.

### **Section Two-Bank Accounts**

Each chapter must have a bank account in the name of the chapter and listed under the EIN for the chapter. Funds cannot be commingled with any other organization, lodge, or personal account. All cash, checks and other financial instruments must be promptly deposited.

It is recommended that there be only one checking account for each chapter. An additional account for savings preferably linked to the checking account is also recommended.

Should the chapter have the need for an investment account, be sure to seek a reputable financial advisor with experience in dealing with non-profit organizations. Contact the State Finance Director for recommendations.

Some chapters may have separate accounts for advisors, sororities and the like. It is not a best practice to have multiple accounts, it is better to keep all funds in one account and maintain a book of accounts to track the fund categories.

There are low cost accounting programs available for non-profits. Contact the State Finance Director if you would like to obtain a copy for use by the chapter treasurer.

Account records must be reconciled on a monthly basis.

Debit cards, if used, must not be used at any time for cash withdrawal or cash-back transactions. Debit cards are to be kept secure and used only for bona fide chapter purposes. Debit card transactions, like any expense, must be approved by the chapter. Debit cards are very convenient to purchase materials

from the DeMolay and More store. Debit cards can reduce banking fees and costs with many institutions over the use of checks.

Chapters may not apply for, nor acquire, credit cards, business credit cards or the like without the express written permission of the Executive Officer.

### **Section Three—Financial Reports**

The chapter owns all funds within its accounts. A best practice is to give regular monthly reports as a treasurer's report at each meeting of the chapter. A sample report is included in the appendix of this manual.

Financial reports must also go to the advisory council.

Annual financial reports must be completed and returned to the State Finance Director by February 1<sup>st</sup> of each year. Electronic reporting formats are posted on the state website. The reporting instructions were covered in Part I of this guide.

Financial reporting is an essential part of maintaining the integrity of our non-profit status and ensuring that the organization can withstand the scrutiny of IRS audits and reviews.

### **Section Four—Audit Committee**

It is a best practice in the Masonic community and financial practices to conduct regular audits of the financial books and records on at least an annual basis. The role of the audit is to confirm and protect the actions of the treasurer. The audit committee reviews financial records and books to ensure income and expenses are properly recorded, disbursements are properly approved, and that appropriate financial controls are in place.

The audit committee should verify that the bank accounts are under the appropriate EIN, verify the authorized signers on all accounts, review that all statements are on file and reconciled, insure that the records have documentation supporting expenditures and that all deposits are made in a timely manner.

The audit committee report should be submitted at the next chapter meeting and advisory board meeting following the audit. A copy of the audit committee report should be attached to the annual financial report.

The audit committee youth members should be appointed by the Master Councilor and the adult members by the Chapter Chairman. The members appointed cannot be directly involved in the role of treasurer or be an authorized signer on the accounts.

## **Section Five—Budgets**

Chapters are encouraged to promote the program planning elements of budgeting with Master Councilors, Senior Councilors and Junior Councilors as a regular part of the development and training of line officers.

The Washington DeMolay Academy, DeMolay Leadership Conferences, and other training are available to help teach these important financial planning tools to youth leaders.

The understanding of income and expenses and good planning to insure the financial health of a chapter is an essential leadership skill that is needed in society today.

Budgets are a required element of the Past Master Councilor Meritorious Service Award. Budgets must be developed by the incoming Master Councilor and submitted to the Advisory Council for review and approval.

Approval of a budget is not the same as approval of expenditures. The chapter must still vote to approve disbursements. Pass thru obligations to DeMolay International and Washington DeMolay does not require chapter approval for timely disbursements, but should be reported as a part of the chapter financial reports.

## **Section Six—Role of the Advisory Council**

The advisory council is charged with insuring the financial viability and health of the chapter. The council must ensure that all requirements outlined in the rules and regulations of DeMolay International regarding financial responsibility and reporting are adhered to in managing the financial resources of the chapter.

The advisory council also advises and consents to the Master Councilor's budget for his term. The advisory council also approves disbursements passed by the chapter to insure that they meet the requirements and are appropriate and legal expenditures of a non-profit organization. The advisory council has an obligation to disapprove expenditures if they do not meet those requirements or if the expenditures will put the chapter in danger of financial risk or viability.

The advisory council also must consider and review all fund raising activities of the chapter for appropriateness.

## Section Seven—Fund Raising Activities

Chapter fund raising has some constraints placed upon it by the rules and regulations of DeMolay International. The activity must:

1. Be in keeping with the values of DeMolay
2. Follow all laws and regulations of the state and local jurisdictions
3. Any activity involving public solicitation of funds must be approved in advance by the Executive Officer
4. Fund raising for community service activities where funds are going to another organization must be reviewed in light of DeMolay's non-profit status and the status of the receiving organization.

Raffles in the State of Washington have very specific rules and licensing requirements, as well as bingo and other forms of gambling. Consult with the Executive Officer regarding these types of activities.

## Section Eight—Charitable Contribution Acknowledgement

The IRS has specific rules around charitable giving and the need for documentation from the non-profit organization confirming certain size and types of giving. DeMolay International has published a guide for members to review regarding our 501 (c) (3) status. It is included as Appendix B of this guide.

In short, it is appropriate to issue a receipt anytime you receive money. However, when a donation is involved it is especially appropriate regardless of the amount. There are rules, however, when the donor receives something in return for the donation in the form of goods or services. For example, a donor receives a carwash for the donation or a dinner for a \$100.00 a plate donation. The rules are:

- For donations under \$75.00, a receipt may be issued listing the amount, the date and the goods or services offered for the donation. You do not have to estimate the value of the goods or services, which is up to the donor.
- For donations of \$75.00 or more, a receipt **must** be issued listing the amount, the date and a good faith estimate of the value of the goods or services offered for the donation. In this case you **must** estimate the value of the goods or services.

If the donation is strictly a contribution with no exchange of goods or services, such as cash, rummage for a rummage sale or bottles or aluminum for recycling drives or such:

- For donations under \$250.00 a receipt may be issued listing the date and either the amount of the gift or a brief description of the gift. For non-cash gifts, do not try to estimate the value beyond less than \$250.00 in value, the donor is responsible to value the gift.

- For donations of \$250.00 or more, a specific written acknowledgement is **required** that must contain very particular language. For gifts of property, do not try to estimate the value of the property. Consult with the Executive Officer and State Finance Director, for gifts of \$250.00 or more, they can assist with sending the appropriate written acknowledgement on behalf of the chapter and ensure it meets all the reporting requirements.

## Section Nine—Payroll Deduction Charitable Giving and Matching Programs

It is of particular importance that each chapter maintains their annual financial reports in a timely manner because proper filing of annual information is what allows DeMolay to participate in most major giving campaigns, foundation grants, federal combined campaign and corporate matching programs.

Several years ago, the IRS, in conjunction with the Urban League, developed the postcard 990 reporting system to allow for verification and confirmation of the charitable status of organizations. In addition, the database maintained by the Urban League is required for many corporate giving programs as an entry into the donation, matching, and grant programs that are offered.

If you are contacted by someone inquiring about charitable giving through payroll or other matching programs, they will need the chapters EIN to be able to participate. You can advise them that your chapter is a subordinate organization covered under the DeMolay International Group Exemption and is an IRS recognized 501 (c) (3) charitable organization.

You cannot, however, give advice as to the deductibility of their contributions. You should advise them to consult their tax professional.

Some organizations, such as United Way, act as a clearinghouse for charitable donations through corporate payroll and matching programs. Many of the programs deduct a service or handling fee to cover the costs associated with managing and disbursing payments. The donor receives the full value of their donation, however.

Some programs, such as the Combined Federal Campaign, require organizations to register with them prior to becoming an approved match participant. Please contact the State Finance Director to see if we are currently a participating organization or to request DeMolay to become a participant.

If you encounter issues with payroll deduction or matching programs, please contact the State Finance Director for assistance.

## **Section Ten—Washington DeMolay Foundation**

The Washington DeMolay Foundation is a public charitable and educational foundation whose aim is to support the efforts, goals and aims of Washington DeMolay. The purpose of the Foundation is to create, collect, receive, and maintain a charitable and educational fund for members of Washington DeMolay. The principle remains intact. The interest will be used for the purpose of furthering DeMolay in the State of Washington for years to come. Simply stated, the Foundation was incorporated to ensure that no worthy young man is prevented from benefiting from DeMolay programs because of financial needs.

Anyone interested in giving an endowed gift to DeMolay should be directed to the Executive Officer or State Finance Director to assist them in meeting their needs and those of Washington DeMolay.