

# TREASURER

The treasurer section is designed to assist the local unit treasurer in carrying out responsibilities of his or her office. Included is information on procedures for record keeping, budgeting of funds, IRS regulations, taxes, and accountability to the membership. Provided are answers to frequently asked questions as well as procedures for recognition of special individuals. Following the guidelines in this section and the Finance Section of the *Annual Resources for PTAs* should help ensure that the treasurer's term of office runs as smoothly as possible.

Leadership development opportunities are available at State Convention, Summer Session, and district conferences. If you would like personal assistance, feel free to contact the PTA state treasurer, your council treasurer or district officers.

(BOOSTER)

## CORRECT HANDLING OF PTA MONIES

It is imperative that the treasurer maintain accurate records. Standard, accepted financial practices must be used when keeping records of PTA money for transactions, enabling proper audits to be performed.

Specifically:

1. The treasurer should issue receipts for all monies, especially currency, received from committee chairmen and individuals.
2. Two persons should always handle PTA funds from the time it is received until the time it is deposited. Cash and Checks should be counted and verified by at least two persons and all monies collected should be turned over to the treasurer ASAP. The treasurer then issues a receipt for the entire amount, checks and currency, to the committee chair.
3. Deposit all funds promptly in a responsible fashion. Funds should be taken directly to the bank following all activities.
4. All PTA transactions must be done by check. Blank checks should never be pre-signed. Never write a check made out to "Cash." It is a good practice to identify the purpose for each check, or its budget line item, on the memo line.
5. All bills are to be paid when authorized by the membership.
6. The treasurer must balance the bank statement upon receipt. The PTA recommends bonding insurance for officers. As an added safeguard, if a unit finds bonding too costly, mail the bank statement to another officer. That person would review it on a regular basis to be sure funds are being directed into approved areas. This precaution can provide additional security for local unit funds.
7. The treasurer should take all records to every PTA meeting. The treasurer's books are open for inspection by members at a time convenient for the treasurer.
8. PTA funds must be kept separate from school and school district funds.
9. The IRS requires retention of records, such as contracts, canceled checks, and invoices from vendors, for seven years. Bank reconciliations and duplicate deposit slips are kept for one year. All other reports such as cash journals, audit reports, year-end financial statements, general

10. When making deposits, use a separate deposit slip for each income category. This will make bookkeeping easier and provide proper documentation for money deposited. Checks being deposited should be listed with the person's name, check number, and amount.
11. The treasurer is responsible for receiving and depositing all monies. For the treasurer's protection, that responsibility should never be delegated or relinquished to someone else such as the president or a committee chairman.

## BUDGETS

Every PTA should have a budget and operate within its guidelines. Local unit bylaws should specify who prepares the budget for the local unit. The treasurer needs to provide the necessary information to help the budget committee develop a document suitable for the unit. Officers and chairmen should present a budget for estimated spending to the Budget Committee. The previous year's financial records can assist in preparing a budget. The National PTA's *Annual Resources for PTAs* section entitled Money Matters provides guidance for preparing a budget and includes samples that can be adapted to a PTA's needs.

The proposed budget should be approved by the PTA board and recommended to the full membership for adoption. This may be done at the last meeting of the year (April or May) or the first meeting of the following school year. A budget can be amended by a 2/3 vote after adoption and funds may be reallocated within the budget by a similar vote. Payment of ALL bills must be ratified by the membership even though the entire budget was previously adopted. The treasurer may "move to pay the following bills...." after making the regular financial statement.

Because PTA enjoys a non-profit status as a 501(c)(3) organization and is exempt from paying federal income tax, there are certain IRS guidelines that govern spending. PTA's primary expenditure should be educational. Budgets must reflect that function. All expenditures should fall within the three categories listed below. These categories must be kept in mind when a budget is being planned. If in doubt about legitimate use of funds, PTA officers and members should ask if the spending serves to implement a PTA Object and/or the National PTA Mission Statement found in the *Annual Resources for PTAs*.

Designations for the three categories are:

- Educational:** supplements the educational instruction of students or provides programs to your membership that would be educational in nature (e.g., parenting programs). This category could include assemblies, Reflections program, speakers, field trips, and various educational projects and resources sponsored by PTA.
- Charitable:** provides children in the school with services or programs which they would not otherwise receive. For example, assemblies, celebrations, certain field trips, etc. Charities DOES NOT mean that PTA funds are donated to other well-meaning organizations or individuals.
- Operational:** permits financing of costs for PTA activities such as postage, printing, committee expenses. Included in this category would be:
  - purchase of materials to educate/inform members such as *Our Children*, *PTA in Pennsylvania*, newsletters, etc.
  - leadership training for members including Summer Session, state and national conventions, legislative events, district and local leadership training sessions.



## **TREASURER'S FINANCIAL STATEMENT**

The treasurer prepares a financial statement or treasurer's report for every regular and executive committee/board meeting. Four signed copies of the report should be prepared—one each for the president, secretary, auditor, and the treasurer's record book.

The report must contain the balance from the previous report, an itemized listing of receipts and expenditures, and the current balance. It is an excellent idea to read the entire report to enable members to be informed. Treasurer's records should be available at all meetings; see sample report included in this section.

The treasurer's report is placed on file for audit. No action is taken because the membership hearing a report does not have sufficient information to know whether figures presented are correct. Following an audit, the report that the books are found in order will be accepted.

It is fiscally responsible for PTA units to place money in interest bearing savings accounts or certificates of deposit. Interest earned from savings interest can help provide additional services for students.

## **AUDIT PROCEDURES**

The bylaws of a local unit or council should be very specific regarding when and how an audit is conducted. An audit is to protect both the treasurer and the membership.

When it is time for the audit, the treasurer should have available for the auditing committee/auditor the checkbook, all canceled checks and bank statements, and a copy of the minutes indicating the budget was approved. If the checkbook allows, all checks returned from the bank can be taped back with their respective stubs. Auditors will need the most current statement, treasurer's record book, copies of financial statements, receipts issued by the treasurer, receipts for expenditures, and any other information pertinent to the financial status. The approved budget should be provided to determine if monies were spent on approved allocations. Audits should be conducted annually or when there is a change in the office of treasurer. Local bylaws provide for the action.

## **WHAT IF FUNDS ARE MISSING?**

In the event that a unit has followed all of the outlined safeguards and the annual audit reveals there are unaccounted funds, there are steps you may take.

- Make no public accusations. Deal with the facts, not the opinions.
- Contact the bonding company with all known details.
- If the unit has no bonding, request an explanation from the treasurer.
- If necessary, get professional advice from the local police department, district attorney, local magistrate, or private legal counsel.

Before any civil or criminal charges are filed, be sure the entire situation has been investigated and that there is no possibility of error. Countersuits and charges of libel and slander are possible if charges are not proven.

## BONDING/FIDELITY COVERAGE

It is in the best interest of the PTA to have the treasurer and all other persons authorized to handle funds and securities of the organizations covered by a fidelity bond in an amount equal to gross receipts of the organization. A bonding policy covers losses sustained through fraudulent or dishonest acts by those who are bonded.

The Pennsylvania PTA has worked with insurance agencies to obtain a low-cost fidelity bond that will protect the local unit/council from loss of money due to acts of dishonesty by volunteers, members, officers, directors, and anyone dealing with the organization's funds. Presidents will receive information regarding bonding from the State PTA Office in late summer. Units should check with local carriers for comparative pricing information.

## LIABILITY INSURANCE

It is strongly advised that PTA units purchase liability insurance. Any project or activity carried out by the PTA has the potential to be a hazard for school children, PTA volunteers, or third parties. Today, liability insurance is an important and necessary item.

The Pennsylvania PTA is annually in touch with insurance agencies to secure low-cost liability coverage. Rates fluctuate from year to year, based upon the number of units that have used the service. Current rates will be mailed to local units in the fall. Coverage may also be purchased through local agents by comparative shopping. Coverage can be purchased on either a continuous, year-round, comprehensive-coverage basis, or for a single event. Generally, school district liability insurance does not extend to PTA units. If the school district indicates volunteers are covered, the local PTA should request confirmation in writing. The information should then be placed in the unit's permanent files.

## INCORPORATION

Local PTAs take on a vast responsibility while carrying out activities promoting the welfare of children and youth and, unfortunately, liability sometimes comes with these responsibilities. Incorporation is a method of providing continuity in the management of the affairs of local PTA units and further limits the personal liability of PTA officers and members.

*A corporation is an association of people to which the authority of the state gives formal recognition as a legal entity.*

In the case of a lawsuit, the PTA is sued as an entity with limited assets. Liability of officers is limited to the assets of the corporation. Officers and members are not personally liable for the corporation's debts, and personal assets cannot be attached.

To become incorporated, a local PTA unit files a copy of Articles of Incorporation with the Pennsylvania Department of State. Articles of Incorporation is the legal document through which a corporation is formed. The document sets forth the name and purpose of the organization and provides other information needed for incorporating the group under state laws. When a PTA incorporates, it does so as a non-stock, tax-exempt, domestic, not-for-profit corporation.



The Pennsylvania PTA has prepared an incorporation instruction packet. The packet can be obtained by calling or writing the State PTA Office. The forms are explained in detail and samples are included. Costs include advertising in two publications as well as a one-time filing fee. Once a unit becomes incorporated, it should place in standing rules the designation of an officer (usually the treasurer), to annually notify the Department of State of officer changes.

PTAs completing incorporation procedures will receive confirmation from the state. That notice should be kept in the unit's permanent records. Copies of the notice should be given to the president and secretary. A copy should also be sent to the State PTA Office.

### REMITTANCE OF PTA DUES

Annual membership fees include the national, state, and local unit dues. The treasurer must keep the national and state portions separate from the local unit dues. It is not necessary to maintain a separate account, only to record separate entries in the receipt ledger. The national and state portions are sent regularly to the State PTA Office as outlined in the state's bylaws. Permission is not necessary to transmit these funds as they are considered pass-through monies, not local unit funds.

The membership section of the *2000-2001 Information Bulletin* contains the guidelines and deadlines for membership awards. The membership chairman must complete and submit the necessary forms and dues to the State PTA Office by the January 15th deadline for the local unit to remain in good standing. A treasurer's remittance form is provided on the last page of this section.

**Please note:** It is not necessary to hold dues monies until the end of the membership drive. Because state and national dues are not part of the monies on which a unit budgets its expenditures, it is better to remit dues as they are received. All dues must be remitted by January 15, 2001, for the unit to remain in the active file and to continue receiving materials and services entitled by membership. Membership drives may continue after January 15. Additional dues are to be sent in as received. Membership should be a year-round process. Please keep a copy of your completed remittance form for your records.

Every person joining a PTA must be issued his or her own membership card. A card is never issued to more than one person, nor in more than one name, such as Mr. and Mrs. All voting done during a PTA meeting is done by a show of membership cards—one vote per card.

PTA membership cards are numbered and a record of the cards sent to each unit is on file in the State PTA Office. It is imperative that the number of memberships remitted agrees with the number of membership cards used by a local unit. Each unit must account for the cards issued to it. And, according to state bylaws, all unused or voided cards must be returned to the State PTA Office no later than July 1, 2001, or the unit will be billed for the remaining cards.

#### **YOUR ASSOCIATION'S LOCAL UNIT RECORD (LUR) NUMBER**

In order to be certain organizations placing orders with the National PTA in Chicago are truly chartered PTA units or councils, it is necessary that the LUR number be provided. The top line on mailing labels used by the State PTA Office to send materials to local unit and council presidents is comprised of three sets of numbers:

1. The first six digits are the LUR number assigned by National PTA.
2. The second group of numbers (nine digits) is the Employer Identification Number (EIN) assigned by the Internal Revenue Service.
3. Last (one or two digits) is the Pennsylvania PTA district number.

**HELP AND ADVICE ARE AS CLOSE AS THE TELEPHONE!**

If additional information is needed on proper handling of PTA funds or if the unit or council is having difficulties, the Pennsylvania PTA board of managers, district officers, and council president and treasurer are available. Units and councils should feel free to call anytime.

The name, address, and phone number of the treasurer of the Pennsylvania PTA are printed in each issue of *PTA in Pennsylvania*.

**RESOURCES**

*PTA Money Matters* section. Available in National PTA's *Annual Resources for PTAs*.  
Reproducible.

*PTA Money Matters* video, available on loan from State PTA Office

**SAMPLE TREASURER'S REPORT**

**XYZ PTA  
Treasurer's Report  
February 9, 2000**

Balance on Hand January 12, 2000		\$ 9,547.68
Income		
Local Portion Membership Dues (100 members @ .75 each)	\$ 75.00	
Fund-raiser	\$ 127.50	
Total Income		\$ 202.50
Disbursements		
Check #456 Sally Smith (Hospitality)	\$ 16.45	
#457 Hometown School District (Duplicating)	\$ 22.78	
#458 Pizza Place (Membership Incentive)	\$ 86.50	
#459 PA PTA (2 Honorary Life Memberships)	\$ 70.00	
#460 ABC Trophy Company (Reflections Awards)	\$ 237.50	
#461 District 35 PTA (Leadership Training - 5 Attendees)	\$ 125.00	
#462 ABP Productions (Student Program)	\$ 650.00	
Total Expenditures		\$ 1,208.23
Balance on Hand February 9, 2000		\$ 8,541.95
Submitted by: _____, Treasurer		

## TAX INFORMATION

On the next several pages is information regarding taxes as it relates to local PTA units, including information pertinent to filing Form 990, Pennsylvania Sales Tax, and the Federal Income Tax Ruling for Councils and Local Units. Local units and councils should review these pages carefully to determine their tax liability and filing responsibilities, if any.

As PTAs begin the school year and plan fund-raising activities to finance projects and programs, be aware of the following:

- PTA is classified as a 501(c)(3) organization under rules of the Internal Revenue Service. This classification means PTAs are exempt from paying Federal Income Tax.
- In order to keep this exempt status, IRS regulations must be followed. PTAs must abide by the bylaws provisions of nonpartisan, nonsectarian, and non-commercial policies. Funds raised and spent by PTAs must reflect educational and charitable tax exempt purposes, as stated in PTA's Mission and Objects.

**PLEASE NOTE:** "Tax exempt status" refers only to exemption from paying Federal Income Tax and has nothing to do with Pennsylvania state sales tax. PTAs are not exempt from paying or collecting Pennsylvania sales tax.

### **PENNSYLVANIA SALES TAX**

A unit is required to pay sales tax on all taxable supplies used by the PTA unit in carrying out its business. If selling taxable items in a fund-raiser, the sales tax must be collected and sent to the state Department of Revenue.

This can be accomplished several ways. The most convenient way may be to pay the sales tax to the vendor from whom items are purchased. The invoice must clearly show the sales tax was paid and must be included in the unit's permanent records. There have been cases where units thought the tax was paid, but when the Department of Revenue began an audit they were contacted to pay a second time. Get a receipt!

A sales tax license is available at the Pennsylvania Department of Revenue office in your area. The license is for a year and is renewable.

The pamphlet *Retailers' Information* can be obtained by telephoning (800) 362-2050. Numbers for district offices can be found on pages 30 and 31 of the pamphlet. Some of the larger ones are:

Pittsburgh (412) 565-7540  
Harrisburg (717) 787-8102

Philadelphia (215) 560-3136  
(215) 560-1828

The pamphlet lists all taxable items. Taxable items vary, as in this example: all food items and beverages purchased from a caterer or business selling ready-to-eat foods are taxable. The purchase of hoagies, donuts, or pizza for a fund-raiser from such an establishment requires payment of sales tax. If ingredients to make hoagies are purchased from a grocery store, then no tax is paid.

If a PTA unit sponsors a fair or carnival once a year, or it participates in a local event and operates a food stand, that is not considered to be an establishment selling ready-to-eat foods, because the unit is not operating such a "business" on a regular basis. In this case, a unit need not collect tax on refreshments or food sold, although tax may have to be paid on items purchased for resale, such as soft drinks.



Any handcrafted items sold at a fair or as a fund-raiser are taxable and the tax must be collected. Candy sold through a business other than a caterer or ready-to-eat establishment is not taxable. On a candy sale held once a year, tax need not be collected.

If in doubt about taxable items, please check the *Retailers' Information* pamphlet or call the nearest Sales and Use tax office.

A sample Sales Tax License form is included in this section for your information. Section 6, and Section 7, parts 2 and 3 do not apply to PTAs.

### **FEDERAL INCOME TAX RULING FOR UNITS AND COUNCILS**

In a January 7, 1970 ruling, the Internal Revenue Service (IRS) granted exemption from federal income tax to all eligible PTA units and councils. Pennsylvania PTA secured this exemption as a service for its local entities. All local PTAs in good standing are classified as 501(c)(3) non-profit educational organizations.

Annually, the state PTA provides the IRS with a list of those units eligible for exemption. In order to maintain eligibility, a unit or council must:

- Be in good standing. (This indicates the unit has forwarded state and national dues to the State Office by January 15.)
- Secure an employer identification number (EIN) and have it on file in the State PTA Office. When a unit forms and is chartered, an SS4 form is filed with the IRS to apply for an EIN. A unit/council EIN appears on the top line of the mailing label, with the president's address, on all materials received from the state PTA. It is always a nine-digit number and usually begins with 23 or 25.
- Give the Pennsylvania PTA written authorization to include it in the exemption list. This need be done only once.

**Please note:** Units that have not remitted current state and national dues at the time the official list is sent to the IRS are automatically dropped from the exemption, even if dues have eventually been sent. They are not returned to the listing until the following year's memo is prepared and mailed. Units withdrawing from PTA membership are reported to the IRS immediately because they no longer are eligible for the exemption.

On December 31, 1992, ruling (IR-82-71) went into effect. It states that organizations exempt from taxes under Section 501(c)(3) of the Internal Revenue Code need not complete federal Form 990 if gross receipts normally are not in excess of \$25,000. Organizations that are not required to file a 990, but receive the form, are advised to check Box J showing gross income of less than \$25,000 and return it. (See the sample page.)

The 990 Form requires a Group Exemption Number (GEN) be shown. This number identifies the "central organization," which in this case is the Pennsylvania PTA. Local units and councils are "subordinates" and are identified through their EINs. The Pennsylvania PTA GEN is 2052. The number is written in Box H on the top of the Form 990.

As indicated, most PTAs are exempt from federal tax under section 501(c)(3) of the Internal Revenue Code and are defined as public charities — not private foundations. This status means PTA does not pay federal tax on income from activities that are substantially related to the purpose for which the exempt status was given.



The PTA may be taxed on other types of income, referred to as "unrelated business income." The law requires nonprofits to:

- report unrelated business activities when gross receipts are \$1,000 or more by filing IRS Form 990-T
- pay taxes on such income.

Nonprofits risk losing tax exempt status if such activities become a primary focus and make the tax-exempt mission secondary.

### **What is Unrelated Business Income (UBI)?**

For an activity to be classified as yielding unrelated business income, three factors must be present.

The income must be:

- from a business,
- regularly carried on, and
- unrelated to the organization's exempt purpose.

#### **FROM A BUSINESS**

- To be considered a business, the nonprofit must take an *active* role in the generation of income from an activity.
- The activity must provide income, *but* does not have to produce a profit.

#### **REGULARLY CARRIED ON**

- IRS regulations say activities carried on only "discontinuously or periodically" will not be considered to be regularly carried on.
- Activities of short duration but requiring long term follow-up or preparation could be considered UBI.
- Activities occurring only once a year may be considered UBI if a commercial company performing the same activity would also be active only once a year.

#### **UNRELATED TO THE ORGANIZATION'S TAX-EXEMPT PURPOSE**

- If an activity is not substantially related to the PTA's mission, it could be considered unrelated to fulfilling the exempt purpose of the PTA.
- The substantial relation to the PTA's exempt purpose cannot come solely from the need for money.

#### **SPECIAL EXCEPTIONS**

- Volunteer activities.
- Low-cost merchandise.
- Donated merchandise.
- Judgment is made on an individual basis whether an activity is related or unrelated. Federal, state, and local governments may have different standards in pursuing the charge of UBI.

## **FREQUENTLY ASKED QUESTIONS ABOUT INCOME TAX FILINGS AND FORM 990**

### **What are gross receipts?**

Gross receipts are all receipts recorded in the treasurer's books.

### **Form 990: What is it and what does a treasurer need to know about it?**

It is an informational return, open for public inspection. The 990 is a report of activities and spending, and ensures compliance with IRS guidelines for spending of such organizations. The treasurer must be aware of spending that does not meet IRS guidelines and could jeopardize nonprofit status. Samples of Form 990EZ and Schedule A are included. The top section of the 990 and 990EZ can be completed as in the sample. Although the forms may look intimidating, PTAs only complete a few sections and most of the information is included in the annual financial report. Units with gross receipts exceeding \$25,000 but less than \$100,000 can use the 990 EZ.

### **What does a unit do if it receives a Form 990 but gross receipts were less than \$25,000?**

A unit need not file a completed return but should fill out the top section as indicated in the sample, check Box J and return to the Ogden Service Center, Ogden, UT 84210-0027. In most cases a unit will not receive a form in the future.

### **A unit has receipts in excess of \$25,000 for the first time and did not receive a Form 990. Where does it get one?**

A form can be requested by calling (800) TAX FORM (829-3676) or by writing  
IRS Forms and Publications  
Forms Distribution Center  
PO Box 25866  
Richmond, VA 23289

### **What is the due date for 990 form?**

The 990 must be filed by the 15<sup>th</sup> day of the fifth month following the close of the fiscal year. For example, if the fiscal year ends June 30<sup>th</sup>, the last day to file would be November 15. It would be most efficient to have the treasurer responsible for that year file the form as soon as possible after the end of the fiscal year rather than pass on the responsibility to a new treasurer who is not familiar with the year's financial activities.

### **What if the 990 cannot be filed on time?**

Use Form 2758 to request an extension. IRS extensions are usually for a maximum of 90 days. Applicable units who do not file by the due date are fined \$20 per day or 5% of gross receipts. The penalty begins on the due date for filing.

### **What is the fiscal year?**

A calendar year is January 1 through December 31. A fiscal year is the 12-month period a PTA uses as its annual accounting period. It begins the first day of a month and ends on the last day, such as July 1 through June 30. The fiscal year was set when a unit first filed its SS4 form. Don't assume that the year runs through a specific period, and if uncertain, write to the IRS for the correct time period. Unit presidents were notified of their fiscal years several years ago. However, if a unit has been filing a 990 Form for several years, a fiscal year has been established with the IRS and that will take precedence over that filed on the SS4. The first line on the 990 Form asks for the fiscal year.

### **Can the fiscal year be changed?**

The Form 990 can be used to change an accounting period (fiscal year) if a change has not been made in the previous 10 years.

## **FORM 990EZ AND SCHEDULE A**

Included on the following pages are sample Form 990EZ and 990 Schedule A. Most units will need to fill in the items circled on the sample form for Part I-Revenue and Expenses. The year end financial statement should provide the information for Part I and II.

Money items should be shown as whole dollar amounts. Less than 50 cents should be dropped and 50 cents through 99 cents should be increased to the next dollar. No spaces should be left blank—designate with a zero or N/A if not applicable.

Be sure to complete all applicable line items, answer "yes," "no," or "N/A" to each question and "O" or an amount on all total lines. Enter "none" or N/A if an entire part does not apply.

A copy of the return must be kept with the unit's permanent records.

The National PTA *Money Matters* publication, found in the *Annual Resources for PTAs*, includes excellent guidelines for completing the 990 Form. A copy the *Annual Resources for PTAs* is sent to each local unit president. The *Money Matters* video is available for loan from the State PTA Office.



For a request made in person, the PTA must make an immediate response. For a request made in writing, the PTA must provide the requested copies within 30 days and may charge a reasonable fee for reproduction and mailing costs.

Any PTA that does not comply with the public inspection requirement will be assessed a penalty of \$20 for each day that inspection was not permitted, up to a maximum of \$10,000 for each return. No penalty will be imposed if the failure is due to reasonable cause (determined by the IRS). Any PTA that willfully fails to comply will be subject to an additional penalty of \$1,000.

All inquiries should be reported to the state and National PTAs.

## Unrelated Business Income— IRS Form 990-T

Most PTAs are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and further defined as a public charity (not a private foundation).

Tax-exempt status means that the PTA does not pay federal income tax on income from activities that are substantially related to the purpose for which the PTA was given exempt status.

However, the PTA may be required to pay tax on other types of income, referred to as unrelated business income (UBI).

The law requires nonprofits to

- report unrelated business activities when gross receipts are at least \$1,000 by filing IRS Form 990-T
- pay taxes on net (often expenses) receipts

Nonprofits risk losing their tax-exempt status only if such activities become the primary focus and make the tax-exempt mission secondary.

**What is unrelated business income?**

For an activity to be classified as yielding unrelated business income, three factors must be present.

The income or activity must be (1) from a business, (2) regularly carried on, and (3) unrelated to the organization's exempt purpose.

1. **From a business**
  - To be considered a business, the nonprofit must take an *active* role in the generation of the income from an activity.
  - The activity must provide income, *but* does not have to produce a profit.
2. **Regularly carried on**
  - IRS regulations state that activities that are carried on only "discontinuously or periodically" will not be considered to be regularly carried on.
  - If activities are of short duration, but follow-up or preparation is carried on over a long period, it could be UBI.
  - An activity occurring only once per year may be considered UBI if a commercial company performing the same activity would also be active only once a year.
3. **Unrelated to the organization's tax-exempt purpose**
  - If an activity is not substantially related to the PTA's mission, then it could be considered unrelated to fulfilling the exempt purpose of the PTA.
  - It is important to remember that the substantial relation to the PTA's exempt purpose cannot come solely from the PTA's need for money.

## BOOSTERS

Most PTA fund-raising activities are exempt from federal income taxes because of the following:

- they are conducted only once per year, or
- eighty-five percent (85%) of the work of the activity is conducted by volunteers, or
- they consist of selling donated merchandise (e.g., a silent or live auction of donated merchandise).

Judgment is made on a case-by-case basis whether an activity related or unrelated.

The federal, state, and local government may have different standards for pursuing the charge of UBI although most state and local governments follow the federal rules.

## \* Statement for Recipients of Miscellaneous Income—IRS Form 1099-MISC

PTAs may be required to file Form 1099-MISC with the IRS if they pay \$600 or more during the calendar year to any unincorporated business or person for services rendered or in payment for a grant, award, or scholarship.

Form 1099-MISC is not required to be issued to corporations or to those paid less than \$600.

Here are some examples of payments requiring the filing of Form 1099-MISC that your PTA may encounter:

1. Payments of \$600 or more to a volunteer for expenses when the volunteer does not provide the PTA with specific documentation for the expenses incurred on behalf of the PTA.
2. Payment of \$600 or more for a scholarship awarded to an individual when the PTA does not have written verification that money was specifically used for tuition and related expenses.
3. Payments of \$600 or more in a calendar year to an unincorporated entity as a grant or for services rendered.

For information regarding specifically when and how to file, you can obtain a copy of the instructions for Form 1099-MISC from the Internal Revenue Service.

Form 1099-MISC must be sent to the recipients on or before January 31 of each year and filed with the Internal Revenue Service on or before February 28 of each year.

The name and address of the recipient, his or her Social Security number (or Employer Identification Number) and the amount of payments must be included on Form 1099-MISC. To obtain the information necessary to properly prepare Form 1099-MISC, the treasurer should send the payee a Form W-9, Payer's Request for Taxpayer Identification Number and Certification.

A procedure should be established to gather the information necessary to complete these forms (especially the gathering of Social Security or Employer Identification numbers).

Because of the substantial penalty potential, it is in a PTA's best interest to issue a 1099-MISC to anyone it is not sure is operating as a corporation or included in the definition of a service provider.

A penalty of \$50 applies to the following:

- Each failure to file in time the informational return—up to a maximum of \$100,000
- Each failure to furnish recipient Taxpayer Identification—up to a maximum of \$100,000
- Each failure to furnish in time a statement to a payee—up to a maximum of \$100,000

## Application for Changing Accounting Period—IRS Form 1128

An organization that is recognized as exempt from federal income tax and wishes to change its accounting period or fiscal year must inform the IRS. In some cases, IRS Form 1128, Application for Changing Accounting Period, must be filed. The form's instructions indicate that procedures must be followed in order to secure approval.

If the PTA is required to complete Part III of the form, it must also submit the application fee as indicated in the form instructions. The IRS can impose penalties and interest when a PTA changes its accounting period without filing Form 1128, when required to do so.

However, if a PTA has not changed its accounting period at any time within the last 10 years, it should prepare an interim short period financial report covering the months that fall between the end of the current and start of the new fiscal years and submit a Form 990 and Schedule A to the IRS covering those interim months.

At the top of Form 990, the unit should print in bold letters: **Interim Return or Short Period Return**—something to the effect that the unit is changing fiscal years and this is a short period information return. The unit should also attach to Form 990 a copy of the change showing the new fiscal year.

## Intermediate Sanctions Legislation PTAs Can Be Fined for Excess Benefit Transactions

When a PTA provides "perks," payment, or extra benefits (such as limousine service, presidential suites, or first-class air travel) to officers or special members of its organization, the IRS may consider it an *excess benefit transaction*, and the individual receiving the benefit, as well as the person who approved the benefit, may be liable for tax penalties.

The IRS may consider it an excess benefit transaction if a PTA provides a benefit that exceeds what would be considered reasonable compensation as consideration for service to an officer or person associated with the PTA.

Previously, PTAs could lose their tax-exempt status for engaging in excess benefit transactions. The new law, the Taxpayer Bill of Rights 2, July 31, 1996, imposes intermediate sanctions—an alternative to revoking an organization's exempt status.

In order for a transaction not to be classified as an excess benefit, any item that may appear to be an excess benefit should be substantiated with documentation proving how the transaction benefited

e.g., presidential suite was used for officers' meetings or with sponsors or exhibitors for future business.

## Disposition of Local PTA Assets

Local PTAs contemplating dissolution should be aware of the state PTA policies and their legal implications. Each PTA's bylaws provide that "in the event of the dissolution of the organization, its assets shall be distributed for one or more of the exempt purposes specified in Section 501(c)(3) of the Internal Revenue Code of 1954 as from time to time amended," and further, that the 501(c)(3) be designated by the state PTA. This basic policy only states what would be reasonably expected—that the assets of the PTA, after paying or adequately providing for the debts and obligations of the organization, be used for one or more of the educational purposes for which they were collected, and not be given to individuals. Any disbanding local PTA must comply with those rules and as also stated in the bylaws is obligated, upon withdrawal of its charter, to yield up and surrender all of its books and records and all of its assets and property to the state PTA or another PTA as designated by the state PTA. The state PTA should be contacted well before any action is contemplated. The policy on disposition of assets (i.e., all cash, accounts receivable, other property, and any rights that may have monetary value) is also applicable in cases where PTAs merge.

## Funds for PTAs

### Purpose of PTA

The primary emphasis in PTA should be focused upon the promotion of the PTA Mission and the Objects of the PTA. The real working capital of a PTA lies in its members, not in its treasury. Fund-raising is not a primary function of the PTA.

When PTAs invest their human resources in programs that better the homes, schools, and communities, they earn benefits for children and youth with very small outlays of money. PTA-sponsored programs can provide enrichment activities for families. PTAs can work with other community organizations on communitywide issues, such as prevention of violence and substance abuse.

Any funds generated by the PTA, including the local portion of dues, should be predetermined and budgeted for purposes that advance PTA work (see Appendix for Sample Form #1, Budget of PTA, p. 15), such as conducting or attending conferences, participating on committees, and undertaking projects and programs. Participation in state and National PTA conventions and conferences is an appropriate and important use of PTA funds.

### Program and Project Funding

Annual membership dues are the primary source of funds for PTAs; some PTAs are able to do excellent work with no financial resources other than their dues. However, special projects and programs may require additional funds. If dues are not sufficient to finance a PTA's work, supplementary funds may be raised within the context of the Mission and Objects of the PTA. While fund-raising is a legitimate activity, for PTAs it should never be a primary focus.



- The framework for how a PTA should conduct its fund-raising is determined by National PTA policies and the government regulations for 501(c)(3) tax-exempt organizations.
- Any funds generated by the PTA, including the *local portion* of dues (not state or national dues), should be budgeted for purposes that advance PTA work.
- PTAs should begin each year with specific goals in mind before determining the dollar amount needed in a fund-raising event. Only those funds necessary to meet the needs of the year's activities and projects, as outlined in the PTA's budget, should be raised.
- The chair or committee is responsible for raising the amount of money needed to meet the proposed PTA budget and for working cooperatively with the president and treasurer in accounting for receipts and disbursements for the activity.

Members cannot be assessed any additional payment aside from their dues unless provided for within their PTA bylaws. Frequent solicitations of contributions from members are unwise, and it places an emphasis on money that is out of all proportion to its importance in PTA work. Keep in mind that the state and national portions of dues are not a source of funds for the local PTA.

## Sources of PTA Funds

The primary source of PTA funds is the membership dues paid each year. However, because the local PTA share of per capita dues is not ordinarily sufficient to cover expenses, most local PTAs conduct fund-raising activities.

One well-planned, annual fund-raising project will usually raise whatever funds are needed to finance the year's activities. If the fund-raising event is to reflect the high principles of the association, it will have educational, social, or recreational value in itself.

PTAs should check with school, local, and state authorities in advance of undertaking any financial enterprise to determine whether the planned activity is prohibited by state or local law or by school policy or whether it requires any special permit.

Please note the sections on liability insurance and federal tax requirements (pp. 6-10).

### The 3-to-1 Rule

When planning the year's activities, PTAs should use the 3-to-1 rule. For every fund-raising activity, there should be at least three nonfund-raising projects aimed at helping parents or children or advocating for school improvements.

## Standards for PTA Fund-Raising

Before approving proposals for material aid to the school or community, a PTA should consider whether or not the proposed equipment or service is a public responsibility. If a public service is *urgently* needed and public funds are not immediately available, a PTA may initiate and coordinate the service while encouraging public agencies to take over its financing and operation. In emergencies, PTAs may provide for the pressing needs of children and youth while they work to alert the public to its obligations. A PTA renders a greater service by securing public support for education and other community needs rather than making gifts to the school.

As money for such purposes becomes available from other sources, a PTA then should allocate more of its funds to such projects as leadership development, parent education, and child health and safety projects. PTA funds should always be used to further PTA's educational purposes.

PTA fund-raising should be carried out within the framework of National PTA policies. Any form of fund-raising that may be detrimental to character building should never be undertaken by a PTA.

**Children should *never* be exploited or used as fund-raisers.**

PTAs should check with their state PTA office to determine if it has guidelines for working with firms or a list of enterprises with which the state PTA has cooperated. PTAs need to be aware of the risks involved in soliciting or accepting commercial contributions finance, or assist in financing, projects. Such contributions may create obligations that violate the noncommercial policy of the PTA—policy designed to protect PTAs from exploitation. Every PTA leader should be familiar with and understand the noncommercial policy (see p. 13)

## Sponsorship vs. Endorsement

*Corporate sponsorship* is a funding mechanism in which a commercial concern provides cash, products, or know-how to a charitable or educational organization in return for an acknowledgment of thanks. The acknowledgment of thanks generally takes the form of public recognition for the sponsor's support.

Corporate sponsorship activities stand in contrast to *endorsement activities*, in which charitable or educational organizations endorse the products or services of commercial concerns.

Sponsorships are an appropriate means of funding projects and programs that promote the objectives of an organization. Endorsement activities are not appropriate for PTA participation based on the noncommercial policy.

In return for sponsorship, a PTA may thank the sponsor for its contribution in writing or on posters, banners, or other appropriate media. The written acknowledgment must be limited to an expression of thanks and can list identifying information for the sponsor. It can never make a qualitative judgment on the sponsor or its product, and it cannot request people to patronize the sponsor or buy products, otherwise the sponsorship payment will be subject to



## Seeking Corporate Sponsorship

In September 1998, the National PTA Board of Directors adopted a policy regarding corporate sponsorships. This policy guides the actions of the board of directors as it relates to sponsorship agreements for National PTA.

Listed below are elements of the national policy that may be considered beneficial to state and local PTAs when seeking corporate sponsors.

- Sponsorships shall help further the programs, aims, and goals of the organization.
- Sponsorships shall be linked to specific events, programs, activities, or publications.
- Sponsorship money or in-kind donations shall not be solicited nor accepted from companies who manufacture products or take public positions inconsistent with National PTA positions and resolutions, e.g., alcohol, tobacco. A successor clause will appear in all sponsorship contracts.
- Sponsorship agreements shall never involve techniques or marketing approaches that exploit children. This does not preclude the sponsor from using child actors in advertising and promotions.
- The PTA name, logo, or mark shall not be used in sponsorship materials or communications without identifying the company as "official sponsor of \_\_\_\_\_ PTA."
- Sponsors' products shall not be identified as "official product of \_\_\_\_\_ PTA."
- All sponsorship materials and communications shall be reviewed by the executive committee with the president responsible for signing all contracts.
- All sponsorship agreements shall adhere to national, state, and local bylaws and shall not put tax-exempt status in jeopardy.

A 501(c)(3) charitable or educational organization is not prohibited from engaging in corporate sponsorship activities. A special provision in the Internal Revenue code exempts corporate sponsorship income a nonprofit receives from taxation as long as the benefits given back to the corporate sponsor fall within IRS guidelines. Because qualifying corporate sponsorship income is considered a charitable donation, there is no limit to the amount that can be received by a section 501(c)(3) organization.

The IRS considers revenue from endorsements, in some cases, to be taxable income. This does not mean that it is illegal; it simply means that a percentage of the revenue must be paid to the federal government, after deducting related expenses. Because some endorsements are considered unrelated business activities, they could jeopardize the tax-exempt status of the organization if they become substantial in relation to the organization's nonprofit activities. Since PTAs do not engage in activities that would be classified by the IRS as unrelated business activities, it does not risk taxable income or jeopardize tax-

## Selecting Appropriate Fund-Raising Activities

One well-planned annual fund-raising project will usually raise the funds needed to finance the year's activities. If the fund-raising event is to reflect the high principles of the PTA, it will have educational, social, or recreational value.

The following questions should be used as guides in selecting and planning a money-raising project that will be both successful and worthy of the PTA:

- Does it adhere to the PTA Mission and the Objects of the PTA?
- Does it conform to the noncommercial, nonsectarian, and nonpartisan policies set forth in the PTA Bylaws?
- Does it not use or exploit children?
- Will it create goodwill for the PTA?
- Is it a type of activity that can serve as a positive example for children and youth?
- Will it provide the revenue to help meet your goals?
- Is it approved by the general membership?
- Did the fund-raising committee provide a budget of expenditures, as required by the PTA's bylaws and standing rules? For example: the cost of materials, advertising for the event, etc.
- Do the state and local governments require the PTA to collect and remit sales tax?
- Are special permits needed, such as special licenses or health permits?
- Is the liability of the PTA and its members protected through sufficient insurance or otherwise?
- Did the president sign the contracts for vendors and/or manufacturers? If using products, does the contract cover who is responsible for spoiled or damaged goods? For unclaimed goods?
- Is the PTA using volunteers, or does it have to pay or contract with workers?
- Have procedures been established to safeguard the handling of products and the money?
- What are the costs for using a facility? How long is the event going to be held? Are there special requirements or restrictions for using the facility? Are fire laws and safety precautions strictly observed? Is it accessible to people with disabilities?
- Is it an infrequent or ongoing activity? Be aware that unrelated business activities could result in some federal or state income taxation on the income earned or, in the extreme, the loss of your tax-exempt status.
- And finally: Are there local, state, or federal laws that apply? Is care taken to see that no law is violated?

Depending on the PTA and the activity, there will be other questions that may need to be addressed. When considering several fund-raising ideas, review this list, as well as other questions and concerns, to determine which fund-raising event to choose.

PTAs are often called upon to finance programs and purchase needed equipment that tight school budgets will not allow, and each PTA must decide what it will do. Before purchasing equipment, the PTA should first determine that the requested equipment supports the school program and that it will be an integral part of the curriculum. It should realize that the equipment will become the prop-

erty of the school district, that local procedures for purchasing and maintaining the equipment must be followed, and that working to secure adequate funding for programs has a more enduring benefit than purchasing equipment for schools. PTAs should not contribute to the problem of inequities within a school district by excessive fund-raising.

Cooperative projects with other organizations should be reviewed carefully to ensure that the PTA's nonprofit status is protected and its objects are not compromised.

Remember...children should never be exploited or used as fund-raisers.

Once a fund-raising project has been thoroughly considered, the executive committee or board must present it to the PTA's membership for a vote to approve the event. The following points can help guide a PTA when it is deciding on a fund-raising project:

- It is suggested that PTAs check with their state PTA to determine if guidelines exist for working with individual companies or corporations. The anticipation of a successful fund-raiser should not cloud the judgment of the PTA or be exploited by those outside the PTA who may have something to gain privately.
- Project organizers must take care not to improperly obligate their PTA when soliciting or accepting commercial contributions to help finance a project.
- Children should not take part in fund-raising activities.

Since the presence of sponsors in schools is growing, not waning, there are some things PTAs should consider. First of all, decide what type of commercial programs are best suited to your school. This will help your PTA judge which opportunities to undertake or avoid.

## Protecting PTA Tax Exemption

A PTA's tax-exempt status is one of its most important assets. If that status is revoked, charges of negligence or mismanagement may be brought against the officers and directors. Therefore, when considering a proposed activity, the PTA should ask, "Will this activity adversely affect our tax-exempt status?"

Strict compliance with all applicable federal, state, and local laws is extremely important to prevent even the most well-intentioned effort from becoming a serious problem for a PTA.

Keep in mind that an activity will be considered commercial if it consists of selling goods or services that do not contribute significantly to education or advocacy for children, even if the revenue raised from the activity is used for education or advocacy. The IRS looks at the source of the funds, not the use of the funds, to determine commerciality.

## Considerations in Developing Standards for Selecting Fund-Raising Materials

Based on guidelines created by the Consumers Union Educational Services division of *Consumer Reports*

1. Does the program require children to purchase a product in order to participate?
2. Is it expected or implied that children will be required to sell to others?\*
3. If there are classroom materials, are they credible and accurate?
4. Has the company produced the materials in partnership with a recognized authority?
5. Are the materials complete and not deceiving or misleading by omission?
6. Is the language and organization of material age-appropriate?
7. Is the information designed to sell products?
8. Do the text and illustrations uphold the PTA's nondiscrimination policies?
9. Is this a financial win-win situation where the PTA is benefiting financially or otherwise from the relationship?

\* PTA policy is very clear that children should never be exploited or used as fund-raisers.

## Noncommercial Policy

All PTA bylaws—national, state, region, district, council, and local—include the requirement to be noncommercial.

- PTAs are prohibited under federal law from engaging in substantial business activities that are unrelated to their tax-exempt purposes, which are legally defined as educational and charitable.
- PTAs should not endorse products, companies, or foundations.
- PTAs may accept and acknowledge contributions of sponsors of PTA programs.
- PTAs may accept advertising as long as it stays within postal regulations (no more than 10 percent of the total document including any self-advertising such as conventions and other events) and does not jeopardize the objects and nonprofit status of PTA.
- PTAs should familiarize themselves with local, state, and federal regulations and requirements regarding licensing and liability before sponsoring or conducting public events.

## Legal Implications of Fund-Raising

In addition to the tax and regulatory concerns that follow, there are three main types of legal implications to fund-raising activities. First, *product liability* concerns are always present when the PTA is involved in selling a product. The concerns vary with the type of products sold. For example, gift wrap is less likely to result in personal injury than frozen pizza.

*Personal injury claims* other than product liability claims are the second main legal concern. For example, a volunteer who is injured while engaging in a fund-raising activity may attempt to hold the PTA responsible.



The third main legal concern results from *contract issues*. Commercial vendors involved in the fund-raising activities may require the PTA to sign written contracts. Like any legal document, these agreements will be binding on the PTA and result in legal liability if fulfilled. For example, if a PTA signs a contract to resell products as a fund-raiser and the contract requires a minimum purchase, the PTA may be required to purchase the minimum amount of goods from its own funds if enough orders are not obtained. Any contract entered into by a PTA should be examined thoroughly by a person knowledgeable in contract law (preferably a lawyer) who can advise the PTA with respect to its obligations.

The insurance policy covering the PTA should also be reviewed to determine whether any product liability, personal injury, or contract claims arising from fund-raising events would be covered. While personal injury typically is covered in a good general liability insurance policy, product liability claims and claims arising from contractual obligations may not be covered.

## State Laws on Fund-Raising

Regulations vary widely from state to state. It is important to check with the appropriate office in the state government to learn about registration and disclosure requirements and other statutes that may apply before the PTA begins its fund-raising activity.

**Registering for a fund-raising campaign.** Many states have enacted laws requiring organizations to register with the state if they plan to solicit donations. Registration must occur before the soliciting begins.

**Disclosure of fund-raising activity.** Some state laws may also require an organization to file an annual report with the state.

**Limitation on fund-raising events.** In some states there is a law or regulation limiting the number of fund-raising events a non-profit may hold.

## Games of Chance

Fund-raising activity involving a for-profit business or a game of chance or gambling should be considered carefully before proceeding. The funds raised from these activities may be subject to taxation and, in extreme circumstances, may cause the PTA involved to lose its tax-exempt status.

In addition, raffles, bingo, casino nights, other games of chance, and auctions may be prohibited by state and local law or school policy. If permitted, they may require special registration with state or local authorities.

## Local Laws on Fund-Raising

Many cities and counties also have registration and disclosure statutes. Particular kinds of fund-raising activities are frequently subject to special local regulations.

## School District Policies

Many school districts have established procedures for organizations to follow with regard to fund-raising on school property using staff members. PTAs should be familiar with those procedures and cooperate with school personnel. Remember PTA policy—children should never be exploited or used as fund-raisers.

## Commercial Coventuring

A new form of fund-raising is *commercial coventuring*.

Commonly, a business will advertise a cooperative fund-raising effort in which money is paid to the business for a product or service and a portion of that money is forwarded, as a gift, to a particular charitable cause. The amount of that gift is ultimately governed by how successful the business is in selling its product or service and has little to do with the efforts of the charity (PTA and its members).

- Given PTA's noncommercial policy, the only appropriate role in any such venture is a passive one. Active promotion, sale, or marketing of the business's products or services by the PTA and its members would, in most circumstances, violate this policy.
- In some cases, revenue received from such efforts could be characterized as taxable unrelated business income to the PTA.
- A number of states regulate commercial coventuring to protect consumers and charities alike.

PTAs must carefully weigh the advantages and disadvantages of associating with or accepting funds from a commercial enterprise.

- Before starting or continuing any joint financial endeavor, a PTA should consider whether the arrangement can be viewed as an endorsement of a product, company, or foundation. If so, the endeavor should be restructured to remove the aspect of endorsement or promotion. If that is not possible, the PTA should not participate.
- If the PTA is already involved in an ongoing or past relationship with a commercial enterprise that does not meet the PTA's non-commercial policy, the relationship should be restructured, if possible, or ended to avoid the continuation of any unacceptable practices.

## Accounting for Funds

- At the fund-raising event, or when funds are received, the treasurer and the chair, together, should count the monies received. Both should sign the receipt verifying the amount.
- Itemized bills, sales slips, etc., are given to the treasurer for payment by check. The treasurer promptly issues receipts for all monies received and promptly makes a deposit in the local bank account.
- Funds must *never* be deposited in a personal bank account or in the account of another organization.
- As with other financial transactions of the PTA, the treasurer is required to keep complete financial records of income and expenditures associated with the fund-raiser. A written report of the financial information should be prepared listing expenditures and income by category, and the report should be presented to the PTA governing body by the treasurer.

### When fund-raising, remember...

- Do call the state PTA or the National PTA office for answers to fund-raising questions.
- Do not rely on the advice of outside vendors.