

# **The Top 4 Things Your Chapters Must Do to be Financially Responsible**

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# Agenda

1. The AGO as a Non-Profit Organization – Tax Reporting Requirements
2. The Need for an Annual Budget
3. Financial Reporting – Income Statement (P&L) and Balance Sheet
4. Oversight of Chapter Financial Processes
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# The AGO as a Non-Profit Organization – Tax Reporting Requirements

- Why / How the AGO is a non-profit organization
  - The American Guild of Organists is a 501(c)3 organization, meaning that it has been granted non-profit status by the Internal Revenue Service. 501(c)3 organizations operate exclusively for religious, charitable, scientific, literary, or educational purposes, among other purposes.
  - The AGO was incorporated in the state of New York as an educational association chartered by the New York State Department of Education (also known as the University of the State of New York).
  - The AGO's incorporation is not publicly searchable. AGO Headquarters can provide the proof of existence of this incorporation through a letter from legal counsel from the New York State Department of Education. Contact Eric Birk at AGO Headquarters if you need this.
  - Donors may request verification of the AGO's (or the Chapter's) non-profit status. AGO Headquarters can provide this on behalf of the AGO; chapters can also provide this on behalf of the chapter (if the chapter has been careful to retain this record from the IRS). A copy of the letter on behalf of the entire AGO is sufficient documentation for any donor to the chapter.
- Benefits the AGO receives as a non-profit organization
  - **Separate entity status.** A non-profit corporation (or limited liability company – “LLC”) has its own separate existence. It can enter into its own contracts, sue and be sued in its own name and is responsible for its own contractual and other obligations.
  - **Limited liability protection.** A non-profit corporation (or LLC) protects directors, officers and members (if it has any members) against being held personally responsible for their company's debts and liabilities.
  - **Tax-exempt status.** Non-profit corporations (or LLCs) can apply for both federal and state tax-exempt status.
  - **Access to grants.** Some non-profits are eligible to receive public and private grants. Certain grants and other public allocations are only available to 501(c)3 organizations.
  - **Tax-deductible donations.** With 501(c)3 non-profits, donations made by individuals to the non-profit corporation are tax-deductible.

- **Possible state sales and property taxes exemption.** This benefit varies by state but non-profit companies may be exempt from paying sales and/or property taxes.
- **US Postal Service discounts.** Tax-exempt non-profits generally can receive discounts on bulk mail rates.
- **Credibility.** There may be more established credibility for a non-profit corporation than for a person or persons informally trying to accomplish their non-profit purpose. Donors may prefer to donate to nonprofit corporations because of this credibility.

## • The relationship of AGO chapters to the national organization

- AGO Chapters are local unincorporated associations which are subordinate units of the American Guild of Organists, This and other incorporation documents are provided in a chapter tax-exempt status packet available on request for any AGO Chapter. Contact Eric Birk at AGO Headquarters if you need this.
- Attempts by chapters to incorporate in another state will result in a dead end (or illegal incorporation: organizations may only incorporate in one state). The subordinate/parent relationship of chapters to national is true both for incorporation and tax-exempt status.
- Each chapter, however, has its own EIN (Employer Identification Number) for tax ID purposes.
- AGO Headquarters includes the differentiation of EINs used by National and each chapter in the chapter tax-exempt packet. Many people in banks, other organizations, and in the legal and accounting professions don't understand the group exemption that the IRS grants organizations like the AGO, which was chartered with the ability to found chapters.

## • Annual tax report filing: Form 990-N, Form 990-EZ, Form 990

- The IRS requires non-profit organizations to make an annual filing.
- There are three filing options:
  - 990-N – “Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ.” This is for organizations with gross receipts of normally \$50,000 or less per year.
  - 990-EZ – non-profit organizations with gross receipts normally between \$50,000 and \$200,000 per year, and assets less than \$500,000.
  - 990 – non-profit organizations with gross receipts normally over \$200,000 per year, and assets more than \$500,000.
- Most AGO chapters may file Form 990-N.
- Form 990-N is filed electronically – there is no paper form.

- Tax filing is required each year. Non-profit organizations must file at least once every three years, or the IRS will revoke the non-profit status of the organization, through a process called “auto-revocation.” This means that the chapter can no longer lawfully receive tax-deductible gifts and grants, and tax needs to be paid on income. Non-profit status can be reinstated with significant effort.
- The IRS should send a reminder notice to the last address on record if a filing is not received on time.
- Completing the 990-N E-Postcard is easy! Eight items of information are required:
  - Employer identification number (EIN), also known as a Taxpayer Identification Number (TIN).
  - Tax year
  - Legal name and mailing address
  - Any other names the organization uses
  - Name and address of a principal officer
  - Web site address if the organization has one
  - Confirmation that the organization’s annual gross receipts are \$50,000 or less
  - If applicable, a statement that the chapter has terminated or is terminating
- The filing due date for all Forms 990 is the 15th day of the 5th month after the close of the tax year. (If June 30 is the end of the tax year, the filing due date is November 15.) There is no penalty for filing late. (But after three years, filing Form 990-N is not an option.)

# The Need for an Annual Budget

- **The purpose of a budget**
  - The purposes of budgeting are for resource allocation, planning, coordination, control and motivation. It is also an important tool for decision making, monitoring the organization's performance and forecasting income and expenditure. With proper budgeting, limited resources are managed efficiently.
  - Budgeting is critical any individual's and any organization's planning process.
  - A chapter needs to be able to predict that it has sufficient financial resources to be able to conduct its planned activities and operations.
  - Budgeting provides a model of the potential financial performance of the chapter, given that specific strategies and plans are followed. It provides a financial framework for making important decisions.
  - To manage a chapter effectively, expenditures must be properly controlled.
  - An example of how budgeting plays a role in decision making is when spending money on advertising. When the budget allocated for advertising has been completely used, the decision may be to stop spending money on further advertising, or to allocate additional dollars to advertising from other expense areas where expected surplus funds exist.
  - Budgeting allows an organization to determine whether it is meeting expectations through differences between budgeted and actual expenditures.
  - The usefulness of budgeting depends on accuracy of available information.
  - Organizations usually find immediate past history as a useful starting point in developing the next year's budget. This may be made easier or more difficult due to factors such as the complexity of the budget or the variability of a chapter's programming from one year to the next.
- **Budget examples**

# Financial Reporting – Income Statement (P&L) and Balance Sheet

- Frequency of Financial Reporting
  - Financial reporting should be done at least as frequent as the chapter's leadership needs to know the financial status of the chapter.
  - Monthly or quarterly would be the norm. Reports provided only annually would not permit the chapter's leadership to make timely financial decisions.
  - Financial statement review and discussion should be a standing item at board meetings.
- Use software or prepare reports manually?
  - Simple financial reporting may be done either manually or with Excel. Many AGO chapters should find this sufficient.
  - More complex financial operations may be facilitated by software designed for non-profit organizations, which includes standardized financial reporting.
    - Examples of non-profit software include: Aplos, Financial Edge by Blckbaud, Intacct, Intuit QuickBooks, NonProfitPlus Accounting Suite, and Xero for Nonprofits.
  - Software designed for businesses would normally provide sufficient capabilities and resources for AGO chapters.
- Examples of Income Statements (P&L's) and Balance Sheet

# Oversight of Chapter Financial Processes

- The chapter should have its own bank account
  - Chapter funds must never be comingled with non-chapter funds, especially personal funds.
  - It is certainly possible for a chapter to have multiple bank accounts, if there is a managerial or regulatory purpose to do so. A scholarship fund separate from regular chapter funds would be an example.
- The chapter should have its own mailbox
  - The chapter should consider having its own permanent mailbox. This makes the transition of leadership much easier – and the interactions by others mailing to the chapter - by not having to change mailing addresses each time leadership changes.
  - A separate chapter mailbox also provides the chapter an image of professional integrity.
- Duly-elected Treasurer
  - As with other chapter leadership, the Treasurer is an elected position, and should be elected and certified by the chapter in a duly-conducted election. This helps ensure integrity in the installation of leadership.
  - In the interest of independence and integrity, the Treasurer should not be an appointed position.
- Reviewing the work of the Treasurer
  - An individual or a chapter audit committee, with reasonably little personal connection to the Treasurer, should review the work of the Treasurer, and make recommendations for improvements to financial processes.

- At a minimum, this review should include a verification of the chapter's bank account to the financial records of the chapter, including regularly performed reconciliations, with this information carried through to accurate financial reporting.

- **Replacing Treasurers – term limits**

- To help ensure financial integrity and independence, the individual serving as Treasurer should be replaced on a regular basis. The AGO operates in some capacities with three two-year terms as a term limit for an individual in an elected position. Chapters should have similar policies and procedures on these matters.
- Besides integrity and independence, replacing elected positions provides fresh perspectives on initiatives, engages the involvement of a greater number of chapter members, grows the bench strength of the chapter by increasing the experience of its members, and develops individuals as leaders.
- A replaced Treasurer can resume the position and duties of Treasurer after a designated time period, normally after one or more terms of a successor Treasurer.

**Any wisdom and experiences  
you would like to share**

**Thank you, and best wishes to you  
and your chapters!**