

SECTION 3

FINANCE

FINANCIAL STATEMENTS AND FORMS

Monthly Financial Statements

The treasurer should present a monthly report to the chapter's board of directors reflecting the current cash position and composition of chapter funds. This report should fully inform the board of income received and expenditures incurred since the last report was given. Budget variances should be a feature of this report.

Annual Financial Statement

All chapters are required to file an annual financial report with the TRA office. The annual report should be filed on the standard form provided at the end of this financial information section or in a similar format.

Balance Sheet

A simplified balance sheet is included with the annual financial statement. The balance sheet identifies special purpose cash and investment accounts and/or fund balances. If your chapter already prepares a balance sheet, please submit a copy in lieu of this form, but include an identifi-

cation of each cash account and its purpose. This form is not designed for chapters using accrual accounting, so the totals in the cash account(s) will equal the fund balance(s).

Cash Receipts and Disbursements

The annual financial statement is a simple cash receipts and disbursements statement that begins with a cash balance at the beginning of the year, adds all receipts, subtracts disbursements and ends with a balance that agrees with the balance(s) in the cash accounts of the local chapter.

The cash account(s) may be a checking account, a liquid money market fund, and/or funds placed in certificates of deposit. The financial statement balance should reflect the total of all cash accounts and should agree to the summary total of cash accounts at the bottom of the page.

Because all cash accounts will be combined on one summary page, the transfer of funds from one account to another does not have to be included in the receipts or disbursements on the summary. At the bottom of the financial statement page, the net (+)/(-) in a CD or Money Market account will indicate a transfer.

If you are using a separate financial statement form for each cash account, adding or subtracting the transfer on the supporting statements for

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the individual accounts would disclose the transfer.

Receipts

Report the gross receipts on each activity. Do not deduct expenses; report them in the appropriate line under disbursements.

Advertising income is considered unrelated business income by the IRS and is taxable. If the annual income is \$1,000 or more and the activity is "regularly carried on," a Form 990T, Exempt Organization Business Income Tax Return, must be filed with the IRS. Be sure to consult a tax professional to determine whether an activity is "regularly carried on" and thus subject to tax.

Disbursements

Record the total expense associated with activities such as a "Taste" or other fund raising activity; do not net the income and expense.

SETTING UP CHAPTER FINANCIALS

Annual Report

Before starting the fiscal year, the annual report for the previous year should be reviewed by the treasurer and president at the start of his or her term of office.

Depository and Authorized Signatures

The Chapter Board of Directors determines the bank at which the chapter will establish its checking account. Unless it is especially inconvenient to the treasurer, it is usually prudent to continue the account in the same bank from year to year.

Most chapters require a single signature to withdraw funds. At least two individuals, usually the president and the treasurer, should be authorized to sign checks.

The treasurer picks up the signature authorization forms from the bank, and secures the authorized signatures on the forms. The secretary then authenticates the chapter's approval as prescribed on the form and arranges for the forms to be returned to the bank.

It is recommended that the chapter use a Post Office Box or permanent address for all chapter mail.

Record Retention

The treasurer should confer with the secretary and board each year to ensure that certain items are preserved in the chapter's permanent record file.

Among these items should be:

- Articles of Incorporation & Charter number
- Chapter By-laws
- Employer's ID Number (EIN)
- Group Exemption Number (GEN)
- Franchise Tax Exemption letter
- Annual 990 and/or 990T Tax Returns for three years
- Tax Correspondence
- Financial Statements
- Bank Statements
- Accounting Records, Receipts and Disbursements
- Payroll Records (if applicable) and related tax returns

FINANCIAL BUDGET

Budgeting Procedures and Process

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The fiscal year of the TRA chapters begins on July 1 and ends on June 30. Monthly financial statements should be prepared by the treasurer, reviewed by the president and presented to the board of directors at periodic meetings. The financial report should include updates on programs and services, whether in progress or just completed and how that compares to the budgeted outcome. A finance & planning committee, in coordination with the chapter officers, should prepare the budget prior to the beginning of the fiscal year. The local board of directors should approve budgets. Annual financial statements are sent to the TRA office following the end of the fiscal year.

Board approval of a chapter budget sets in place an overall financial plan for the year, but does not serve to approve individual expenditures as they occur throughout the year. Individual expenses require board approval for payment as they arise. The treasurer should give notice on items for payment not originally included in the budget.

What is a Budget?

A budget is a tool - an educated guess - a road map of where you want to go and how you expect to get there. Budgets are typically one to two year plans that fit into the long-range plan of an organization. It is a method to measure the performance of an organization, a program or service.

Who Should Be Involved?

All chapter officers, board members, committee chairmen or persons responsible for the activity should be involved in the budget process. Regarding metro-area chapters, the staff should also contribute to the budgeting process.

What Are the Tools Needed?

- A plan or goals
- Historical information from financial statements, deposit records, checkbooks, any other records you may have that relate to income or expense on previous events.

- Bids or estimates of costs
- Avoid "incremental budgeting" - taking last year and just adding a percentage

How Do We Do It?

Seven Steps to Effective Budgeting

1. Know your mission - what do you plan to do for the next year?
2. Evaluate existing and proposed programs - eliminate or change those programs that are not working. Honestly evaluate the potential success of a new program.
3. Assign responsibilities and set deadlines - be sure to involve the persons responsible.
4. Keep the process simple and realistic.
5. Get the budget approved by the board - provide the board members with enough information to evaluate the budget, use historical information for comparisons.
6. Keep score - the budget is the beginning point, use it as a tool to measure how programs and services are doing compared to expectation.
7. Review and revise as needed - stay flexible and respond to problems as they occur, take steps necessary to correct.

Responsibilities

The finance & planning committee should be comprised of the treasurer and other officers or board members and be as large or small as the size of the chapter or the number of programs dictates. It is usually good practice to have the prior year or current year chairmen of programs or services on this committee so that they can evaluate the program and offer recommendations for changes or enhancements.

Getting Started

You should have a plan, know what you want to do for the year, and what you expect from the set programs and services. Income and expense budgets should be broken into two categories: projects/fundraisers and general administrative expenses.

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- Projects: programs or services such as Taste events, golf tournaments, other fundraisers, board retreats, newsletters, membership directory, etc.
- General administrative expenses include income from investments or money market accounts and expenses for general postage, printing letterhead, copying or printing, bank fees, accounting fees, and any other costs not specifically relating to a project.

Administrative Budgets

Most chapters will have very limited budget items in this category. If you have investments, calculate the annual interest you will earn and include it in revenue. Estimate annual expenses for general printing, postage, accounting or administrative costs. Historical information is usually all you need here unless you have some fluctuation in investments or planned expenses.

Keep Score

Keep track of where you are, compare the results with what you expected and planned in the budget, and make any necessary adjustments. Budgets are tools to help guide you through the process and then assist you with planning the following year.

Evaluate

Your actual results compared to budget may vary widely. This should be reviewed closely to determine your action for the following year. A hugely successful project may be expanded and one that is barely making it should either be dropped or continued and subsidized based on its value to the members and the goals of the organization.

FINANCIAL RECORD-KEEPING

Chapter financial records should provide detailed information about the nature and source of income and the purpose of expenditures. The books and records of the treasurer must be made available to the chapter board upon request.

The treasurer's responsibility for the collection of meal (and other) charges at chapter affairs remains even if he or she does this with the help of assistants. The restaurant can be paid with the cash collected at the door plus a check, if there is a difference between the charge and the cash collected. This practice avoids the necessity of carrying around a large amount of cash. The treasurer's cashbook entry should show both the income and expense involved with the breakdown and explanation included.

Cash Receipts

Cash receipts should be recorded and identified as received. With checks, note the payer's name, check number and date of the check. Cash items are identified with a "received from" description. Copies of checks and deposit slips should be maintained in the chapter files.

Cash Disbursements

Board members should present in writing to the treasurer all requests for expenditure of chapter funds. The treasurer, during his or her report to the board, presents these requests for approval. The individual requests, once approved, are recorded in the minutes and presented to the president who then returns them to the treasurer for payment. All payments should be made by check.

The treasurer should make sure that all expenses could be categorized by purpose and therefore properly allocated in the disbursement journal. When this policy is followed, the result will be the (desired) breakdown of expense into the purpose for which the expense was authorized.

The checking account balance should be large enough to cover the anticipated expenditures during the three or four months of heaviest cash

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outflow. A sufficient minimum balance permits the chapter to meet its obligations.

Checking Account

The treasurer maintains the checkbook, promptly noting deposits and withdrawals so that the account is, at all times, kept up-to-date. Statements should be reconciled to the checkbook soon after received. Another chapter officer should review reconciliation when completed. Arrangements should be made, if necessary, for a statement to be issued by the bank whenever the treasurer's responsibilities are to be transferred to another member.

Petty Cash Funds

A small amount of cash on hand to meet specific needs may be established by the board. It should be limited in scope and amount and should be closed when it has served its purpose.

Savings Accounts

Many chapters maintain a savings account as a means of providing funds for emergencies. When this is done, the treasurer maintains the passbook or other evidence of the investment and takes such action as is required to have interest income recorded in the passbook and in the financial report of the chapter.

TAX FILINGS

All chapters of Texas Restaurant Association are responsible for filing the required returns of their chapter in a timely manner. You may wish to consider having a public accounting firm of your choice assist you with the preparation of the return(s), as the state association will not be responsible for this task.

Form 990 & 990EZ (Return of Organization Exempt from Income Tax)

TRA and its local chapters are exempt from federal income tax under section 501(c)(6) of the Internal Revenue Service Code. Exempt organizations are required to file tax returns if they meet certain criteria. In general, if gross receipts are ordinarily \$25,000 or more, then the form 990 is required. Organizations may file the short form, 990EZ, if they meet both the following criteria:

- Gross receipts are under \$100,000, and
- Total assets at the end of the year are under \$250,000. (Including cash and investments, building and equipment.)

TRA chapters whose gross receipts are normally \$25,000 or less are not required to file Form 990 or Form 990-EZ, *Return of Organization Exempt From Income Tax*.

Beginning in 2008, TRA chapters who previously were not required to file a return, are required to file an annual electronic notice, Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required to File Form 990 or 990-EZ*. This filing requirement applies to tax periods beginning after December 31, 2006. The first filing for these chapters will be for fiscal year ending 6/30/08 and will be due by 11/15/08.

Go to IRS.gov – select “charities & non-profits” from the toolbar, and locate link to the information regarding the 990-N.

Form 990-T (Exempt Organization Business Income Tax Return)

This form is filed separately by organizations with gross income of \$1,000 or more from business unrelated to the organization's exempt purpose. Monthly advertising in a newsletter is an example of unrelated business income. For details, see Publication 598; Tax on Unrelated

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Business Income of Exempt Organizations, available free from IRS.

If the chapter charges for advertising in a publication, or engages in other unrelated business activity that is "regularly carried on," the form 990T is required. Please read the instructions for the 990T or consult your tax accountant for further clarification. It is advisable for each chapter to engage a local CPA firm to prepare the returns and review accounting information annually. Each local chapter is responsible for filing its own tax return and failure to file may jeopardize the exempt status of your chapter.

If you are not subject to tax and have received a Form 990 from the IRS, mark the appropriate item on the Form 990 or 990EZ, follow referenced instructions, and file the return. Please be certain to retain copies of tax returns in your permanent files and send a copy to the state office.

Other Federal Tax Forms

- **Form 1099** - File with IRS annually when payments to an independent contractor exceed \$600 in a calendar year.

The following forms are only applicable if the chapter hires paid employees:

- **Forms W-2 and W-3** (Wage and Tax Statement, and Transmittal of Income and Tax Statements) - Used to report wages paid and social security and income taxes withheld by the organization to its employees. If Forms W-2 and W-3 are required, Forms 940 and 941 will also be required.
- **Form 940** (Employer's Annual Federal Unemployment (FUTA) Tax Return) - Used to report unemployment tax paid by an employer.
- **Form 941** (Employer's Quarterly Federal Tax Return) - Used to report social security and income taxes withheld by an employer and social security tax paid by an employer. (Due quarterly)

- **Texas Form C-3** (Texas Employment Commission Report - SUTA) - Used to report state unemployment tax paid by an employer. (Due quarterly)

Maintaining Your Tax Exempt Status - (GEN) 7063

The Texas Restaurant Association applied for and was granted a group exemption for its local chapters under section 501(c)(6) of the Code. This exemption applies to federal income tax only and this number must be included in the appropriate block on your tax return.

To maintain the group exemption, the state office must file an annual update letter with the IRS disclosing information on each of its subordinate chapters. Therefore, it is important that the annual financial information filed with the state office is complete, accurate and timely. You may need a copy of the group exemption letter as evidence of your non-profit status when applying for permits for fund-raising events or other miscellaneous activities involving local or state government. Contact the TRA finance or chapter development department if you need a copy of the letter. **This exemption does NOT exempt the chapter from paying sales tax.** See below.

State Taxes

Texas Franchise Tax

Under 1992 tax law, the Texas Restaurant Association and its local chapters are exempt from Texas Corporation Franchise Tax.

State Sales Tax

Exemption under section 501(c)(6) of the Internal Revenue Service Code does **NOT** exempt the Association or its local chapters from paying state sales tax. If you are not charged sales tax on a taxable item, it is advisable to add the tax to the invoice before paying and inform the vendor that you are not exempt. Sales tax must be collected on the sale of tickets for your "Taste." If needed, contact Chapter Development for a letter from the Comptroller's office dated April 29, 1986, referencing this issue.

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ASSOCIATION LAW

Antitrust Issues

An association provides its members with a forum where antitrust law transgressions can occur, even though unintentional. Extreme care must be exercised to avoid policies, programs, dialogues, or pursuits which could be seen as having an intention or result of restraint of trade. Basic federal antitrust statutes are the Sherman Act, the Clayton Act, the Federal Trade Commission Act and the Robinson-Patman Act. Of principal concern for association members and affiliates would be illegal contracts, combinations, and conspiracies in restraint of trade.

Additional second antitrust concerns involve credit and statistical reporting, product standards, certification, and customer relations.

Liability Issues

Association officers and directors may be exposed to personal, criminal or civil liability for acts they perform on behalf of the association. Injury or damage claims may involve negligence, slander, or interference with contract rights. As a rule, any officer or director who acts in good faith, using ordinary diligence and care will not be found liable.

You may want to obtain a general liability or director/officer liability policy for your chapter.

If you would like more information, or receive a quote for your chapter, contact Glenda Pittsford at AIC- Sun Belt Group, Inc., (512) 452-0611 or (800) 759-2082.

Employer Identification Number

All chapters have an Employer Identification Number and the correct number is on file at the state office. This number is required to open bank accounts, make investments, or, if you have paid staff, for filing payroll taxes.

Reserve Funds and Suggested Uses

Excess accumulation of reserves by non-profit organizations may raise a question with IRS concerning the profit motive of the association and whether or not it should be exempt from income tax. As long as local chapters continue to pursue the exempt purpose of the organization, there does not appear to be a problem with accumulating reserves in excess of normal operating expenses. Care should be taken to ensure that this excess is reserved for scholarships or for other exempt purposes.

Public Records

Effective December 22, 1987, all tax-exempt organizations must make available for public inspection the original exemption application to the IRS, the IRS determination letter, and annual information tax returns for the previous three years. These documents must be available at the organization's principal office and any other offices having three or more employees. A penalty of \$10 per day is imposed for failure to disclose this information.

Tax returns and organizing documents must be available at the local chapter office or in the custody of the president or a designated officer. Additionally, beginning with tax year 1987, each chapter that is required to file a tax return must send a copy to the state office. (Turn to the previous section under **Tax Filings**, to see if your chapter is required to file.

Fund-Raising and Solicitation

Also enacted in 1987 was a second disclosure requirement mandating that any tax-exempt organization not eligible to receive tax-deductible charitable contributions must clearly disclose in its solicitation material that contributions are not tax-deductible.

Dues paid to a trade association are not deductible as a charitable expense, but a portion may be deducted as an ordinary business expense.

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Written solicitations and dues invoices must contain a statement regarding the non-deductibility of the payment.

Other Information

A final law change in 1987 requires that any exempt organization selling information or services that are available from the federal government free or at nominal cost must disclose that availability.

The penalties for failure to comply with these provisions of the new law are substantial. Please ensure that your chapter satisfies these requirements.

Membership Dues

Effective in 1994, a portion of membership dues may not be deductible from your Federal Income Tax as a business expense if the dues are paid to an organization that engages in lobby activities.

Trade associations such as TRA have long served as the voice of their members before government bodies; therefore, the amount that may be deducted will be lessened by the amount TRA expends on representing you before your state and federal officials. The Texas Restaurant Association will annually compute the non-deductible portion of dues which is printed on your renewal invoice.