

PROTECTING YOUR CHAPTER'S FINANCIAL INTEGRITY

FINANCIAL PROCEDURES FOR
ALL PENNSYLVANIA DeMOLAY CHAPTERS

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Responsibility

The Advisory Council is responsible for the Chapter's financial standing and conduct of its business, but the Advisory Council should **involve the young men** of the Chapter in the financial activities as much as possible. Take advantage of this opportunity **to teach** fiscal responsibility, budgeting, simple accounting and other **special skills** not taught in other organizations. The Advisory Council is required to observe the Rules and Regulations of DeMolay International (hereinafter referred to as "the DIR&R") in the conduct of the financial business of the Chapter. Particular attention should be paid to Sections 327.1 through 327.10.

Theft of Chapter Funds!

*"This could never happen in **OUR** Chapter!"* That's what any Advisory Council would say or think, prior to experiencing a theft by a member or an Advisor. Sad to say, it has happened more often than we would like to admit. The amounts in Pennsylvania alone have ranged from \$5.00 all the way up to \$20,000.00, and all by men and boys who were trusted without question.

This is not to say that you can't trust anybody, or that you should mistrust everyone. But the wise advice is that you follow the policies and procedures established, not to offend those whom we trust, but simply to act as a deterrent to those we should **not** trust. If you follow these guidelines, you will decrease the probability of theft, and you should never have to face the unpleasant task of filing legal or fraternal charges against an errant Brother.

The most common errors involve mishandling of cash, allowing one person to sign checks or make withdrawals, and forgery. Following these procedures will protect your Chapter from these errors. If you are an officer charged with these responsibilities, you should **insist** that the Chapter follow these procedures for the protection of your own reputation.

Audits are a Must!

As with a Lodge, all the funds of a DeMolay Chapter, its Advisory Council, or any affiliated bodies such as a Chevalier Court, must be carefully handled, and **annually audited**. A good system of record keeping can make the audit job very simple next year.

In December each year, the Master Councilor must appoint an annual Audit Committee of at least 2 members and 2 advisors to prepare the Annual Financial Report. The Chapter Scribe and Treasurer, as well as the Scribe Advisor and the Treasurer Advisor should be present for the audit to explain what was done and to answer questions, *but they cannot be voting members of the*

committee auditing their own work. The purpose of the audit is to review all accounts, transactions and procedures to verify that all expenses were legitimate and to assure that the DI-R&R were followed. The audit committee is to complete the Annual Financial Report and the IRS 990N online "postcard" form and submit it before the established deadline. These guidelines will help you establish good financial records for your Chapter.

Establishing Accounts

Before you establish any accounts, be sure you know your Chapter's Federal Tax Identification Number (TIN). If you are not sure of the number, contact the Executive Secretary and he will provide the number on file. If you are starting a new Chapter, you will need to file IRS Form SS4 in order to receive a number. The form is very simple, and will only take a few minutes to complete. You will be filing as an affiliate to a 501(c)(3) non-profit organization.

You will need this TIN before a bank will allow you to establish any account. DO NOT establish an account with any PERSONAL Social Security Numbers. The bank will report all interest income to the account directly to the IRS. If a personal SS# is attached to the Chapter's account, that person will be liable to pay income tax on interest income. Even worse, if discovered, you may be required to pay a penalty for failing to report this income on your own income tax statement!

Be sure to apply for Non-Profit Organization consideration by the banking institutions you deal with, to eliminate or cut the cost of account maintenance fees. If a bank will not provide you with that advantage, shop around! Also, look for interest-bearing accounts. When the rates are reasonable, you might find that paying the account fee is worthwhile, to get the interest.

Checking Account: This is a MANDATORY ACCOUNT for current operating funds. All expenses of the Chapter should be paid by Chapter check, and not through personal or business accounts.

Savings Account: A general savings account is optional, but recommended. This can be for excess operating funds, or to hold funds which will be paid out for other purposes.

Life Membership Account: This is a MANDATORY ACCOUNT, unless the Advisory Council has chosen to use the Permanent Fund Option, described in the next paragraph. A Life Membership Account is like a pre-paid annual dues account, for deposit of funds designated for that purpose. The monies in the Life Membership Account may be withdrawn only as allocated by the plan to prorate portions of the fund to be returned to the general fund checking account. This plan is to be approved by the Executive Officer. Its purpose is to provide an annual supplement to the Chapter funds to cover the annual financial obligations of the Chapter. This is just as if the members had paid annual dues in advance, and you were withdrawing enough money to cover them for that one year.

The Permanent Fund Option: The Executive Officer has also authorized the establishment of a Chapter Permanent Fund, similar to those in our PA Masonic Lodges. In lieu of a Life Membership Account, you may establish a Permanent Fund with the minimum amount of \$1000.00 which will generate interest to pay some of the Chapter's annual obligations, (e.g.: Insurance, Dues, Rent, etc.) and by its existence, provide for the financial security of the Chapter. The Chapter may borrow from the Permanent Fund, with the stipulation that all income to the Chapter must then be used to replenish the Permanent Fund before being used for entertainment and activity expenses.

Initiation Fees

The initiation fee a chapter charges must take into account the fees immediately payable to DeMolay International, anticipated annual dues to Pennsylvania DeMolay, if any, and annual costs to the chapter, such as insurance premiums. The fee must be the same for everyone, so you will need to establish a fee which would cover a member's expenses during his nine years of active membership (years 12-20). This fee is a part of the Chapter bylaws, and must be voted on and approved by the Chapter members. The initiation fee in Pennsylvania ranges from \$45.00 to \$85.00.

Signatures

At **least two authorized adult signatures are required** for each check or withdrawal from any account held by the Chapter. This is to assure that only authorized expenses are paid by the Chapter. If a member or Advisor accepts the responsibility for signing checks, they are agreeing not to sign any checks except for those which were legally authorized for payment. **Only the Treasurer and at least one of several other authorized members** of the Advisory Council are approved by the DeMolay International for account signatures authorizing transfer or payment of bills.

Checks must NEVER be signed until the payee and amount is inserted.

It is **not permissible** for two members of the same family to sign checks, whether for Chapter funds or other accounts held by any of its subsidiary units, such as a Chevalier Court or Advisory Council. For subordinate organizations, the authorized signatures should be a combination of at least one officer who is at least age 18, and one Advisory Council Member.

Segregation of Duties

It is important to segregate the duties of various officers to provide additional checks and balances against unauthorized payments. While it is authorized, the use of a Scribe/Treasurer provides one less level of safety for your Chapter funds, and is discouraged.

Bank Statements

One of the best safeguards is to have the monthly bank statements sent to someone other than the Treasurer or individual who writes the checks (most often these are sent to the Chairman of the Advisory Council). This provides an opportunity to review disbursements and deposits on a monthly basis, and to question unusual payment or deposit amounts. It is important that this review be completed upon arrival of the statement so that it can be turned over to the Treasurer and the books balanced each month. Another important practice that **every Chapter must adopt** is to have the current bank statement passed around at the monthly Advisory Council meeting so that ALL Advisors may review it and ask appropriate questions.

Handling Monies

Chapters are to use the standard DeMolay Account Ledger books or a computer program approved by the Executive Officer. **All monies are received** by the Scribe. The Scribe writes a duplicate receipt, keeping one copy for his records, and giving the original to the person who turned in money to him. The Scribe then turns all monies over to the Treasurer, with an accounting of the sources of those funds, for deposit. The Treasurer, in turn, gives a receipt to the Scribe for the total amount turned over. The Scribe and Treasurer both enter the amount of the receipts in the Receipts

portion of the ledger, but the Scribe's entries will detail each amount, while the Treasurer's entries will only reflect total amounts.

Expenses incurred on behalf of the Chapter must be authorized in advance. Perhaps you won't know exact amounts, but the Chapter should approve an approximate expenditure, either by the approval of a term budget or at the request of committees on a project-by-project basis. Without this approval, you face the prospect of being presented a bill which far exceeds the resources or the intentions of the Chapter membership. The Chapter has the right to reject payment of any bill for services or supplies it did not authorize in advance. However, if the Chapter has not established the practice of authorizing expenses, it is fully liable for all expenses incurred in good faith, on its behalf, by its officers or Advisors, and must pay creditors so as to avoid a bad reputation for not paying its obligations.

A bill to be paid, which must be evidenced by either an invoice or a paid receipt, is presented at a regular meeting of the Chapter and voted on. If the Chapter votes to pay the bill, the Scribe will write a voucher, sign it, and have it signed by the Master Councilor. The voucher instructs the Treasurer to write the check, and tells him the amount, and to whom to make it payable. The Treasurer gets the appropriate signature(s), and gives the check to the Scribe for mailing or distribution.

Debit Cards

Chapters may have a debit card attached to the General Fund, **ONLY UPON APPROVAL OF THE EXECUTIVE OFFICER.** All expenses from the General Fund, paid by the debit card, must be pre-authorized by vote of the Chapter, proven by a voucher signed by the Scribe. All expenses must be evidenced by itemized receipts.

Financial Reports

A complete report of financial activities, listing the balances in each account held by the Chapter, should be given at each meeting by the Treasurer. The Advisory Council should review the status of the funds at each Advisory Council meeting. The financial advisor should work with the Scribe and Treasurer to make sure they are keeping accurate and neat records. Check their work often and use this unique opportunity to teach fiscal responsibility to the Chapter Officers as well as to the individual Chapter members. **Annual Financial Reports** are due to the Executive Officer on a form provided in January of each year. The Advisory Council **MUST NOT KEEP KNOWLEDGE OF CHAPTER FUNDS FROM THE MEMBERS.** The practice of keeping secret funds, or investments of which the Chapter has no knowledge, will not be tolerated.

Fidelity Bond

The Scribe, Treasurer and all Advisors given responsibility for funds of the Chapter should be bonded by an approved insurance company. The present policy provided through DeMolay International is designed to cover only losses **exceeding \$5000.00** from theft, mismanagement or embezzlement, **so long as the proper safeguards, such as described in this document, have been followed.** ALL THEFT from DeMolay Chapters **MUST** be reported immediately to the Executive Officer upon discovery, and he will provide direction for recovery of all losses.

Budget

The Chapter's books shall be set up on a calendar year basis. **Each Chapter must develop a budget** and work within the confines of the expected income and expense established by the budget committee. The Advisory Council may alter the budget as needed, but the Chapter should be aware of the budgeting process, again, as a learning opportunity. Refined budgeting can be done for each term, and the Chapter officers should be taught how to perform this exercise, but an annual budget is required at the beginning of each calendar year.

Cash Advances

Cash advances may be issued. They must be authorized and compared to budgeted expenses. Committee Advisors should be involved in supervising finances, and an activity report must be filed with the Advisory Council. **Paid receipts must prove expenses or cash must be returned.**

Only by using a budget can you afford the luxury of authorizing maximum expenditures on a project and working with cash advances. *This limits Advisors, DeMolays and parents from having to put money out of their own funds to cover authorized expenses.*

For example, the Entertainment Committee plans a dance, expecting \$500.00 income and \$400.00 expense. The budgeted expense of \$400.00 can be authorized as an allocation to the Chairman or the Advisor of the committee at the proper time, so that he may purchase refreshments and decorations, and pay for the disc jockey or the band. At the meeting following the dance, he would make a detailed report; submitting all receipts and remaining cash. If the committee runs out of money, or desires to exceed the budgeted amount, the Committee would be required to return to the Chapter and request additional funding.

Almoner's Fund

Chapters may have an **Almoner's Fund**. This is the charitable fund of the Chapter, and money is collected through fund-raising and voluntary donations at stated meetings. This money can be used for charitable purposes and for sending flowers, get-well cards and the like. Chapters are permitted to set a "box of fraternal assistance" or a collection basket out at Installations and other public functions to take voluntary donations to the Almoner's Fund, as long as there is a card or an announcement explaining that all donations will be used only for charity and relief. **HOWEVER, CHAPTERS ARE PROHIBITED FROM PASSING ANYTHING THROUGH THE CROWD TO TAKE UP A COLLECTION FOR THE ALMONER'S FUND OR ANY OTHER CHARITABLE ENDEAVOR.** The money collected by the Almoner should be turned over to the Scribe, and may be kept either as a separate account or as a sub-account in the Chapter's operating fund. The Almoner's Fund should **not** be kept in cash. You must account for all income and expense to the Almoner's Fund.

Appendant Organization Funds

Chevalier Courts, Legion of Honor Preceptories and other appendant organizations are permitted to have their own funds, if necessary to their effective operation. All such funds must be operated in accordance with the DI-R&R and these guidelines. In the case of a Chevalier Court or a Squires Manor attached to a Chapter, the Chapter Advisory Council must review and approve the annual audit, which will then be included as a part of the Chapter's annual Financial Statement to the Executive Officer. Independent Chevalier Courts and Legion of Honor Preceptories must submit their annual Financial Statements directly to the Executive Officer. In all cases, these organizations

must either use their own accounts, or deposit and expend their funds through an affiliated DeMolay Chapter. **IN NO CASE SHOULD A PERSONAL ACCOUNT BE USED FOR THE DEPOSIT OR EXPENDITURE OF ORGANIZATIONAL FUNDS.**

Advisory Council Funds

Some Advisory Councils deem it advisable to handle its expenses through a separate fund. This is not necessary, but it is permitted. If the Advisory Council's expenses can be anticipated and budgeted, they can be worked into the regular budget of the Chapter, and the Secretary of the Advisory Council can receive a cash advance from the Treasurer. Normal rules governing Chapter Funds apply to the Advisory Council in this case.

Designated Funds

DeMolay International Funds are those fees due to DeMolay International, such as initiation fees and Advisory Council Registration costs. These need not be voted on by the Chapter, since their payment is mandatory, and they must be paid on time. Cost for items purchased from the supplies department (presently called the DeMolay and More Store) of DeMolay International is NOT in this category since it is not mandatory to purchase these items. Honors fees are NOT mandatory; these expenses must be approved by the Chapter, without specifying the name of the honorees, of course. This is an expense that is often handled through an Advisory Council fund.

PA DeMolay State Association Funds are those fees due to the State Association for Insurance Premiums and for Dues, or contributions mandated by the Executive Officer for the PA DeMolay Endowment Fund. These need not be voted on by the Chapter, since their payment is mandatory, and they must be paid on time.

Equipment/Regalia Funds are encouraged for all Chapters, to set money aside to be used to upgrade, repair and replace the Chapter's regalia. DeMolay costumes, capes, jewelry and props must be maintained to give a good impression to candidates.

Fund Growth

Please be aware that while financial stability and self-sufficiency is highly desired for a DeMolay Chapter, fund growth is not the primary goal. **Money is not to be accumulated without a purpose.** A Chapter that has thousands of dollars in the bank, but only a few members participating, is not being responsibly supervised. Money is to be used for the good of the Chapter, within the simple guidelines of DeMolay International. Membership recruitment is never a bad way to spend Chapter funds.

Investments

By vote of the Chapter and with the approval of the Advisory Council, surplus funds may be invested in stocks, bonds, mutual funds, certificates of deposit or adequately secured loans; provided that each separate investment must ultimately be approved by two-thirds vote of all members of the Advisory Council. Be sure you know what you are doing if you decide to invest in risk-oriented instruments. They don't all make money!

Fund Raising

Chapters are to conduct fundraisers in which the members participate and actively earn money to pay for their activities. Chapters are discouraged from soliciting donations from Masonic organizations in order to meet routine expenses. Chapters may conduct any fundraiser permitted by the law of the land, the laws of the Grand Lodge of Pennsylvania, the DI-R&R, and which meet the moral and ethical standards of the Order of DeMolay.

Fundraisers such as meals, sale of foods and household items, physical (but non-dangerous) labor such as landscaping and house-cleaning, traffic control, catering, etc. are normal fund raising projects for DeMolay Chapters. While not entirely prohibited, Chapters should avoid working in any environment where alcoholic beverages are served. *A basic rule-of-thumb: when in doubt, contact the Executive Secretary or Executive Officer for guidance.*

Pennsylvania DeMolay Escrow Fund

All funds for a DeMolay Chapter belong to the Order of DeMolay. When a Chapter is closed, its funds are collected by the Executive Officer and placed in the Pennsylvania DeMolay Escrow Fund, for future use in building new Chapters or reviving old Chapters. When closing a Chapter, Advisory Councils are **not permitted** to return the funds to former donors, to the Sponsoring Body, or to spend the money indiscriminately on projects to improve the local Masonic Temple or to support charitable organizations. *Advisors who engage in a process of "cleaning out" a Chapter's treasury open themselves to criminal and personal liability. These actions are not treated lightly.* When a Chapter is closed the funds must be immediately secured and audited. See the complete policy governing the Escrow Fund in the statement of Executive Officer policies.

Pennsylvania DeMolay Endowment Fund

Until the early 1980's Chapters paid per capita annual dues to conduct the activities of Pennsylvania DeMolay. With the growth of Pennsylvania DeMolay's assets, which generate income, and with the assistance of the Pennsylvania Masonic Youth Foundation, the day to day expenses no longer require income generated by annual dues. Therefore, the Executive Officer determined that an annual assessment for the development and growth of an Endowment Fund should replace the dues. The Endowment Fund is established to perpetuate the activities of the Order of DeMolay in Pennsylvania, and is invested for long-term growth. The principal of the fund will never be spent, but the income will be used to fund activities and programs for Pennsylvania DeMolay.

Important I.R.S. Information

DeMolay Chapters operate under a blanket exemption issued to the International Supreme Council as a 501(c)(10) fraternal organization, and to DeMolay International, as a 501(c) 3 charitable organization. This means that we are exempt from paying Federal Income Tax, but we must file annual individual Chapter reports required by the IRS. This is now done on-line or by way of a postcard, for most Chapters, which have a minimal amount of annual income (less than \$50,000) **AND MUST BE DONE ANNUALLY.** If the IRS sends you a notice indicating that you have not yet filed a Form 990, and it will begin to assess penalties, **DO NOT PANIC.** However, **YOU MUST FILE A RESPONSE TO THIS LETTER,** or there may be penalties assessed. When in doubt, contact the Executive Secretary or the Executive Officer immediately. **Filing the annual required Audit Statement to the Executive Officer does not exempt you from filing a tax return with the I.R.S.** If you lose the 501(c)(3) status, it may be difficult to get it back, and you will NOT be able to accept contributions for which the donors can claim a tax deduction.

Receipt of Contributions

Donors to your Chapter may naturally assume that they are giving to a charity, and therefore may take a tax deduction for their contribution.

Chapters are reminded that the I.R.S. Code states that **donors may deduct** contributions to our organization, **only if** the contributed funds are to be **used exclusively** for the purposes of the organization and do not inure to the benefit of specific individuals directed by the donor. This no longer precludes many normal Chapter expenses, such as postage, printing, refreshments, educational workshops, public speaking competitions, and similar activities at the State Convention or the Key Man Conference, and other state programs. However, it is unethical for a Chapter to take a contribution for something like a scholarship, directed for the benefit of specified individual members and to provide a receipt as a charitable contribution. Such a directed contribution does not qualify as a charitable deduction for the donor, and it is illegal for us to represent it in that way. The **burden of proof** concerning the use of such contributions is on your Advisory Council, and not on the donor. You should be very careful when doing anything that involves the I.R.S.

If your Chapter has received donations from individuals who RESTRICT the use of the money in any way, and who specify that they are expecting tax benefits, you are to report such to the Executive Officer immediately, along with a statement as to how the restrictions will be observed by the Chapter.

Please be aware that when donors and Estates report such contributions to the I.R.S., it may trigger an I.R.S. inquiry and/or an audit of your Chapter's financial activities.

EVERY CHAPTER'S ADVISORY COUNCIL SHOULD ALREADY HAVE A COPY OF THE DeMOLAY INTERNATIONAL GUIDE TO 501(c)(3) REGULATIONS, WHICH SHOULD BE FOLLOWED CAREFULLY. This is available for download at www.demolay.org. For questions or additional copies of these guidelines, contact the Executive Secretary.

Yes, You Must Pay Sales Tax!

By current law in the Commonwealth of Pennsylvania, we are also exempt from paying Income Tax, and no reports are presently required. **HOWEVER, DeMOLAY CHAPTERS ARE NOT EXEMPT FROM PAYING SALES TAX ON ANY PURCHASES**, and under Sales and Use Tax Regulation 205, 61 PA Code Section 32.21, the State will not issue an exemption to any fraternal organization. While it is the seller's obligation to collect the sales tax, no DeMolay member or Advisor is permitted to misrepresent the Order, or their Chapter, as being exempt from paying State Sales Tax.