

**High Country PETS**  
**Rotary Club Finances and Reporting Requirements**  
**By PDG Curt Harris on March 6, 2022**

A Rotary Club President and the Club Treasurer must work as a team to ensure that their Rotary Club remains financially viable and that the Club remains in good standing with various regulatory authorities. This document provides information for the President and Treasurer to perform the necessary functions to accomplish those goals. Additional resources are provided for more specifics on how to accomplish specific tasks. However, while the information contained in this document is correct to the best of my knowledge, you may wish to consult an attorney, accountant or other person with expertise.

**Duties of a Rotary Club President**

The position of Club President has many responsibilities. As it relates to a Rotary Club's financial operations, at the very least, a Club President is responsible for the following:

- Ensuring the Club Treasurer has both the expertise and the training necessary to fulfill their responsibilities
- Work with the Treasurer to develop the format of the financial statements and the schedule for presentation of financial statements to the Board
- Confirm with the Treasurer that the necessary filings (Form 990, state forms, etc.) have been filed
- Work with the Treasurer to help prepare a budget for the next fiscal year
- Arrange for a review of the Club's financial statements (may also wish to arrange for a review of the Club's Foundation as well)

**Duties of a Rotary Club Treasurer**

A Club Treasurer has many very important functions:

- Collecting and managing Club funds
  - Club dues payments
  - Money raised from Club activities
  - Rotary Foundation grants
  - Sponsorship funds
- Submitting semi-annual dues and fees
  - Rotary International Dues
  - Rotary District 5450 Dues
- Reporting on the state of the Club's finances
  - Periodic financial statements presented to the Club's Board

- Filing regulatory reports
  - Form 990
  - State forms
- Working with The Rotary Foundation and/or Club's Rotary Foundation Chair
  - Submit donations the TRF received by the Club on a timely basis
  - Personal donations received must be submitted before the end of the year (for tax reporting purposes) and all funds due to TRF should be submitted before June 30<sup>th</sup>
- Working with the Club President and President Elect to develop and present an annual budget to the Board for the next fiscal year
- Preparing your successor

A somewhat dated manual for a Rotary Club Treasurer can be found at:

<https://clubrunner.blob.core.windows.net/00000050134/en-ca/files/sitepage/club-officer-s-resources/lead-your-club-treasurer/Club-Treasurer-s-Manual.pdf>. Rotary has chosen to discontinue the Treasurers Manual, so don't embark on a frustrating quest to find one (like I did).

Basic training for Club Treasurers can be found on Rotary's "The Learning Center" found at: ([https://learn.rotary.org/members/learn/learning\\_plan/view/7/club-treasurer-basics](https://learn.rotary.org/members/learn/learning_plan/view/7/club-treasurer-basics)). This is a five-segment training that will take about one and one-half hours to complete.

### **Background/Non-Profit Organizations**

All US-based Rotary Clubs, our Rotary District 5450, Rotary International, The Rotary Foundation of Rotary International and Rotary Club Foundations are all organizations organized in accordance with **Section 501 of the IRS Code**.

Under IRS rules, all business entities (or their owners, depending on structure) are required to pay income taxes unless they have applied for, and been granted, a tax-exempt (non-profit) status by the Internal Revenue Service. In starting of a Rotary Club, paperwork is filed with the Secretary of State ([www.sos.state.co.us](http://www.sos.state.co.us)) to incorporate the Club. Once formed, the Rotary Club obtains a Federal Tax ID Number, also known as an Employer Identification Number (EIN). This can easily be done online using the IRS website ([www.irs.gov](http://www.irs.gov)). By virtue of being chartered by Rotary International, the Club falls under RI's non-profit status and the process to be declared a non-profit organization is fairly simple. An application to form a Club Foundation can be a little more complex. After submission of an on-line application (IRS Form 1023), the IRS issues a "**Determination Letter**," which grants that tax exemption. This Determination Letter is an important document and needs to be kept in the permanent files of the organization (as well as digitally). If you can't locate yours, you can obtain another through the IRS website.

Companies or people doing business with a non-profit organization, especially a Club Foundation, may request a copy of this Determination Letter.

Often confused with tax-exempt status under IRS Code is a state-granted "**Sales Tax Exempt**" status. To be exempt from paying sales taxes, a non-profit organization (only 501(c)(3) organizations) must submit an application to the State of Colorado. This can be applied for on-line at [www.tax.colorado.gov](http://www.tax.colorado.gov). If approved, the organization is issued a "**Certificate for Exemption for Colorado State Sales/Use Tax.**" To avoid paying sales tax, the organization must present a copy of that certificate to the vendor. Note that Rotary Clubs, as 501(c)(4) organizations, are not eligible for a sales tax exemption.

According to the IRS Code, there are currently 29 different types of non-profit organizations which can be granted tax-exempt status. However, within the world of Rotary, there are really only **two types** that are important:

- **501(c)(4)** organizations (Rotary Clubs)
- **501(c)(3)** organizations (Club Foundations)

Both organizations are "Non-Profit Organizations". The primary differences between the two types of organizations are that **donations to a 501(c)(3) organization are tax-deductible and the use of Club Foundation funds is much more restricted.** They are often called "Public Charities." On the other hand, donations to a 501(c)(4) organization are never tax-deductible and the Club has much more latitude in using its funds.

All Rotary Clubs, as well as Rotary International, have been determined to be **exempt organizations under Section 501(c)(4)** of the IRS Code as a "**social welfare organization.**" "To be tax-exempt as a social welfare organization, an organization must not be organized for profit and must be operated exclusively to promote social welfare and must operate primarily to further the common good and general welfare of the people of the community (such as by bringing about civic betterment and social improvements)."

A Rotary Club may choose to form its own Club Foundation for one or more reasons:

- To make donations tax-deductible
- Some supporters or sponsors may require entities to be 501(c)(3) organizations
- To obtain Sales Tax Exempt status

Many, but certainly not all, Rotary Clubs have organized a **Club Foundation under Section 501(c)(3)**. The Rotary Foundation is also organized under this section. Clubs may choose to operate without forming a Club Foundation because the volume doesn't warrant a separate entity or leadership just wants to keep things simple.

The Rotary Club and the Club Foundation need to be completely separate entities. They should have separate Boards of Directors and make decisions separate from the other. It is important to try to maintain this separation. In smaller Clubs, it may be unavoidable to have some overlap of members serving for both entities. It is okay for the President of the Club Foundation to hold a position on the Club's Board.

Because 501(c)(3) organizations accept tax-deductible donations, **there are significant restrictions on how those funds can be used.** "The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction."

In other words, **you must be very careful on how Club Foundation funds are spent.** The Club and its Foundation are two entirely separate organizations. **You can never use Club Foundation money to fund Club activities or pay Club expenses.** However, when a Club has excess funds, money can be transferred from the Club to the Club Foundation but, normally, funds cannot be transferred from the Foundation to the Club. Rotary Clubs may also have other restricted accounts (bingo/raffles accounts or grant accounts) which have similar restrictions on the use of these funds.

### **Filing Requirements**

All non-profit organizations are required to file an **annual form with the IRS.** For an organization that has annual revenues of \$50,000 or less, they can satisfy the requirement with the very short **Form 990-N** (also known as e-Postcard). Larger organizations may be required to file the more complicated Forms 990 or 990-EZ. This form must be filed on the 15<sup>th</sup> day of the fifth month following the end of an organization's fiscal year. All Rotary Clubs and most Club Foundations have fiscal years ending June 30<sup>th</sup>, so these **990 forms are due November 15<sup>th</sup>** of each year. Four-month extensions are automatic, but must be applied for. Failure to file these forms in a timely manner can result in fines or, in the event that three consecutive reports are missed, the organization's status as a tax-exempt organization can be revoked. This could also result in RI revoking the Club's charter. Needing to apply for reinstatement could result in a cumbersome, time-consuming and, possibly, expensive process. **Perhaps the single most important thing a President and Treasurer can do is to make sure the Form 990 is filed in a timely manner.** A copy of the filed Form 990 should be sent to Bev Mendel in the District 5450 Office. Proof of filing is necessary for any club to become qualified to participate in District or Global Grants.

The State of Colorado also requires non-profit organizations to file a **"Periodic Report"** with the Secretary of State's office. The Periodic Report is "due during the three-month period beginning with the first day of the entity's anniversary month of formation, also referred to as the Periodic Report Month." The Periodic Report Month can vary between Clubs and Club Foundation but can easily be found on the Secretary of State's website.

If a Club has a Foundation, in addition to the Periodic Report, the Foundation is also required to file a **"Charitable Solicitations Registration Renewal"** form. This report is required the same day the Form 990 is due. If an extension of the Form 990 has been granted, the due date for this form is also extended.

### **Organization Structure**

Since the Club and the Foundation are two separate organizations, they must have their own Board of Directors and hold their own Board meetings.

Rotary International has issued the charter for your Rotary Club, but RI seems to be indifferent to Foundations organized by Rotary Clubs. Rotary has granted the Club's charter to operate as a Rotary Club and has some authority on how any Rotary Club operates. A Club's Foundation has no such RI charter and Rotary International has no authority over that entity. For example, if your Club is involved with a grant through The Rotary Foundation, they will only deal with the Club, and not the Foundation: MOUs for TRF grant qualification are executed by Club officers, grant applications are submitted by the Club and checks from TRF for grants are made payable to the Rotary Club.

### **Payment of funds to The Rotary Foundation (TRF)**

Often a Rotary Club holds funds that are due to The Rotary Foundation. These funds may include contributions included with a member's payment of a Club dues invoice. Or it may be Club funds due to TRF for other reasons such as contributions to PolioPlus in lieu of a speaker gift.

The proper forms must be completed to make sure that each member and/or the Club is properly credited for their donations. Responsibility of preparing this paperwork usually falls to either the Club Treasurer or the Club's TRF Chair (if there is one). Forms and instructions for completing them can be found at:

<https://my-cms.rotary.org/en/document/multiple-donor-form> and  
<https://my-cms.rotary.org/en/document/contribution-form-rotary-foundation>.

In order to ensure that these contributions are properly recorded in the correct Tax and Rotary years, all personal contributions to TRF being held by a Club should be submitted

before June 30<sup>th</sup> and December 31<sup>st</sup> of every year. Contributions being made from Club funds should be submitted before June 30<sup>th</sup> of each year.

### **Preparing a Budget**

Each year, the Club President Elect and Club Treasurer, with input from the current Club President, should prepare a budget for the upcoming fiscal year (which begins on July 1<sup>st</sup>). This budget should be presented to the Club's Board of Directors for approval.

A budget template that can be used to help in this process can be found at:  
<https://clubrunner.blob.core.windows.net/00000050134/en-ca/files/sitepage/club-officer-s-resources/lead-your-club-treasurer/Club-Treasurer-s-Manual.pdf>.

### **Review of Financial Statements**

An annual review of the Club's finances should be conducted and may actually be required by your Club's By-Laws. If a Club has a Foundation, an annual review of that entity's finances should also be conducted. This review may consist of two or more qualified Club members conducting the review and providing a brief report to the Club's Board. Qualified Club members can include accountants, bankers or any other financial professional that has not been directly involved in administering the Club's or Foundation's finances. Larger Clubs may wish to contract with a professional accountant to conduct these reviews.

### **Other Potential Resources:**

- Your Club's Bylaws
- Your Club's Constitution
- Rotary International Manual of Procedure
- Rotary Code of Policies

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## Timeline for Treasurer Duties

Before June 30	President Elect and Treasurer prepare budget
	Submit all funds due to The Rotary Foundation
June-July	Have budget approved by the Club's Board of Directors
After June 30	Arrange for review of Club and Foundation financial statements for year ending June 30 <sup>th</sup>
November 15	Deadline to file Form 990 for Club and Foundation Copy sent to Bev Mendel at office@Rotary5450.org
_____	Club Foundations only: Deadline to file Charitable Solicitations Registration Renewal (date may differ if fiscal year ends other than June 30 <sup>th</sup> )
Before December 31	Submit all personal contributions held for The Rotary Foundation
_____	Deadline to file Club's Periodic Report with Secretary of State
_____	Deadline to file Foundation's Periodic Report with Secretary of State