

REDBOOK - EXTERNAL SUPPORT/BOOSTER ORGANIZATIONS

The following information was extracted verbatim from the Kentucky Department of Education's Accounting Procedures for Kentucky School Activity Funds "Redbook," effective August 1, 2019.

External support/booster organizations are adult/parent organizations established to promote school programs or complement student groups or activities, (i.e., PTA, PTO, booster organizations, etc.). An external support/booster organization's purpose may be to support a student group or program at a particular school or various student groups or programs at various schools. Even though an external support/booster organization works very closely with the district, it is a separate legal entity and is responsible for adherence to IRS guidelines and Title IX regulations.

General Guidelines

1. Created by the parents, external support/booster organizations provide support for school programs. Generally, fundraising efforts are planned and carried out by the parents.
2. External support/booster organizations must receive local board approval to establish, lend support, seek assistance, or fundraise in the name of the district, school, students, or a district or school program.
3. All funds expended by a support/booster organization shall be from their fundraising activities and donations. **No dues, fees, or charges shall be assessed to students or parents.** However, PTA's can charge dues per member to cover membership fees they have to pay forward to national/state/district/local chapters.
4. An external support/booster organization must use external bank accounts and shall obtain its own Federal Employer Identification Number (FEIN) specifically and only for its use. External support/booster organizations shall not use the FEIN of the school or district.
5. An external support/booster organization is exempt from state sales tax on purchases only if it obtains its own state tax exempt number. External support/booster organizations shall not use the state tax exempt number of the school or district. Sales made by external support/booster organizations may be subject to the collection and remittance of sales tax.
6. An external support/booster organization is exempt from federal tax, and donations made to the organization are tax-deductible to donors, only if it obtains its own federal tax exempt status.
7. It is recommended that each external support/booster organization have written by-laws which include the offices and their terms.
8. Each external support/booster organization must submit the FEIN and the names of the organization's officers to the principal at the beginning of the school year or within thirty days of the first transaction of the organization.

9. External support/booster organization officers are solely responsible for ensuring that their group is in compliance with district policies, external support/booster organization guidelines in the *Redbook*, and state and federal regulations. A district, including any district employee, shall not be held responsible for any deficiencies by the external support/booster organization.
10. District employees may serve external support/booster organizations as a general member or as a member of its executive board. However, local board members may only serve external support/booster organizations as a general member and shall not serve as an officer of the organization.
11. Neither local board members nor district employees shall serve external support/booster organizations as the treasurer or any other officer with check signing authority on the external support/booster organization's bank account.
12. The school activity fund shall not reimburse external support/booster organizations for any purchases.
13. No booster club shall pay the fee for any referees or officials of athletic events regulated by KHSAA and counted on the school's record. External support/booster organizations may, however, donate to the district/school for these purposes.
14. Booster clubs shall not pay or enhance salaries or stipends for any district employee, nor can they create paid positions. External support/booster organizations may, however, donate to the district/school for these purposes as long as the salaries paid are under the district's salary or stipend schedule. **External accounts cannot reimburse district employees for personal and booster club purchases.**
15. Anything purchased by an external support/booster organization for the school, in the name of the school or for the athletic group it supports, becomes the property of the school district. If the district accepts the item, then the district will be responsible for maintaining and repairing it.
16. The school or district, with approval of the local board of education, may establish additional guidelines/requirements for the external support/booster organizations.
17. The school may disassociate with any external support/booster organization that does not comply with the External Support/Booster Organization section in the *Redbook*. If the school disassociates with the external organization, the external organization shall not use the school name for its activities, conduct any fundraising in the name of the school or athletic group within the school and shall not use the school facilities to conduct such activities.
18. Additional resources for external support/booster organizations can be found in Appendix C – External Support/Booster Organization Resources.

Insurance

1. It is recommended that treasurers of external support/booster organizations be bonded.
2. All external support/booster organizations are required to carry separate insurance for general liability with the appropriate coverage to operate their organization. External support/booster organizations are not covered by the district liability insurance.
3. Proof of liability insurance coverage must be submitted to the principal prior to commencing any fundraising activities.

Fundraising

1. The local board's approval of all school-wide fundraisers proposed by external support/booster organizations, including the use of funds, is required. The Fundraiser & Crowdfunding Approval (Form F-SA-2A) shall be completed and approved before the fundraiser begins.
2. The principal or a designee's approval of all other fundraisers proposed by external support/booster organizations, including the use of funds, is required. The Fundraiser & Crowdfunding Approval (Form FSA-2A) shall be completed and approved before the fundraiser begins.
3. The external support/booster organization must ensure funds are expended in accordance with only the purpose and intended use stated on the Fundraiser & Crowdfunding Approval (Form F-SA-2A). The Fundraiser approval shall be obtained prior to commencing the fundraising activity.
4. External support/booster organization fundraising must benefit the members of the group as a whole; no fundraising monies shall be applied to individual student accounts. Accounting by student places the external support/booster organization tax status in jeopardy as stated in the Internal Revenue Service document called Compliance Guide for 501(c)(3) Public Charities, on Page 2 under the heading "Private Benefit and Inurement". The document can be found at <http://www.irs.gov/pub/irs-pdf/p4221pc.pdf>.
5. The IRS prohibits tax-exempt organizations from **requiring** participation in fundraisers. Likewise, support/booster organizations **shall not** require an amount be "donated" in lieu of participating in a fundraiser.
6. Individuals choosing not to participate in a fundraiser shall not be excluded from benefitting from the fundraiser and shall not be penalized in any way.
7. District employees shall not be involved with an external support/booster organization by ordering or receiving goods, receipting, depositing funds, paying vendors, or otherwise disbursing funds. External support/booster organization funds remaining on school property must be kept in a secure location which cannot be accessed by any school personnel.
8. Students may handle funds during a fundraiser conducted by an external support/booster organization.
9. If a fundraiser involves stations (carnival or fall festival, for example), tickets shall be sold at a central ticket booth. Patrons purchase tickets from the central ticket booth and remit a ticket at each station.
10. External support/booster organizations may provide financial support to student groups by donating funds to the school for expenditure or by expending the funds directly.

11. If the external support/booster organization donates funds to the school for expenditure, the external support/booster organization writes a check to the school where the student group is located. The school deposits the funds into the student group's activity account, as long as the board has given the school authority to maintain donations at the school level. The funds then belong to the members of the student group, to be spent at their discretion (under the supervision of the sponsor). All accounting and safeguarding of the funds is the responsibility of the school, once the school has received the funds and all "Redbook" guidelines must be followed.
12. If the external support/booster organization expends the funds directly, the external support/booster organization writes checks to the individual vendors for the expenses related to the student group through the organization's bank account. All accounting and safeguarding of the funds is the responsibility of the external support/booster organization.

Reporting

1. Each external support/booster organization must submit an annual External Support/Booster Organization Budget worksheet (Form F-SA-4B) to the principal within the first thirty days of the school year or within thirty days of the first transaction of the group. The budget shall contain, at a minimum, estimated revenues from admissions, fundraisers, dues, concession sales, and other categories and estimated expenditures by category.
2. Each external support/booster organization must submit an annual financial report for the fiscal year ending June 30 to the principal by **July 25**. The annual financial report shall contain, at a minimum, cash beginning balance, cash ending balance, and revenues and expenditures by category (i.e. admission revenues, concession revenues, items for resale, supplies).

Title IX

1. External support/booster organizations must ensure compliance with Title IX. Title IX of the Educational Amendments of 1972 is a federal law that prohibits sex discrimination in educational programs which receive federal funding. Since all public schools in Kentucky receive federal funding, Title IX applies to all programs in the public schools. 2. Benefits provided by boosters are viewed under Title IX as being provided by the school and the school's administration is responsible for ensuring equity.
2. Expenditures made by external support/booster organizations must be reported to the principal annually by **July 25**.

Appendix C - External Support/Booster Organization Resources

Life Cycle of a Public Charity

The following excerpts have been copied from the IRS website. The information documented below is subject to change by the IRS. Therefore, for the most up-to-date version of this information, please go to <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Life-Cycle-of-a-Public-Charity>.

Organizations that meet the requirements of Internal Revenue Code section 501(c)(3) are exempt from federal income tax as charitable organizations. In addition, contributions made to charitable organizations by individuals and corporations are deductible under Code section 170 (26 U.S.C. 170).

During its existence, a public charity has numerous interactions with the IRS – from filing an application for recognition of tax-exempt status, to filing the required annual information returns, to making changes in its mission and purpose. The IRS provides information, explanations, guides, forms and publications on all of these subjects – they are available through this IRS web site. The illustration below provides an easy-to-use way of linking to the documents most charities will need as they proceed through the phases of their “life cycle.” The IRS web site includes examples of various documents found in the following sections.

Starting Out

- 1) Organizing Documents
 - a) Required Provisions
 - b) Sample Organizing Documents
 - c) Governance and related topics

- 2) Bylaws
 - State law requirements

- 3) Employer Identification Number
 - a) Application Form
 - b) Online EIN Application

- 4) Charitable Solicitation
 - a) Initial State Registration
 - b) Periodic State Reporting
 - c) State Charity Offices

- 5) Help from the IRS

Applying to IRS

- 1) Requirements for Exemption
- 2) Application Forms
 - a) Exemption Application
 - i) Group exemption
 - b) User Fee
 - c) Power of Attorney
 - d) Disclosure of Applications
- 3) IRS Processing
 - a) While You Wait
 - b) Rulings and Determination Letters
- 4) Help from the IRS
 - a) Application Process Step by Step
 - b) Customer Account Services
 - c) Publication 4220, Applying for 501(c)(3) Tax-Exempt Status
 - d) Publication 557, Tax-Exempt Status for Your Organization

Required Filings

- 1) Annual Exempt Organization Return
 - Requirements for Filing
- 2) e-File for Exempt Organizations
 - e-Postcard for Small Exempt Organizations
- 3) Unrelated Business Income Tax
 - a) Requirements for Filing
 - i. Form 990-T
 - ii. Form 990-T instructions
 - iii. Form 990-W
 - iv. Estimated Tax
 - b) Exceptions and Exclusions
 - c) Publication 598, *Tax on Unrelated Business Income for Exempt Organizations*
- 4) Help from the IRS
 - a) Customer Account Services
 - b) Publication 4221-PC, *Compliance Guide for 501(c)(3) Public Charities*
 - c) Publication 557, *Tax-Exempt Status for Your Organization*

Ongoing Compliance

- 1) Jeopardizing Exemption
 - a) Inurement/Private Benefit
 - b) Intermediate Sanctions
 - c) Lobbying/Political Activity
 - d) Not Filing Annual Return or Notice

- 2) Employment Taxes
 - a) Requirement to Pay
 - b) Exceptions and Exclusions
 - c) Worker Classification
 - d) Forms and Publications

- 3) Retirement Plan Compliance

- 4) Substantiation and Disclosure
Charitable Contributions
 - a) Publication 1771, *Charitable Contributions Substantiation and Disclosure Requirements*
 - b) Written acknowledgments
 - c) Quid pro quo contributions
 - d) Charity auctions

- 5) Noncash Contributions
 - a) Donor (Form 8283)
 - b) Donee (Form 8282)
 - c) Publication 561, *Determining the Value of Donated Property*

- 6) Public Disclosure Requirements

- 7) Help from the IRS
 - a) Customer Account Services
 - b) Publication 4221-PC, *Compliance Guide for 501(c)(3) Public Charities*
 - c) Publication 557, *Tax-Exempt Status for Your Organization*

Significant Events

- 1) Reporting Changes to IRS
 - a) Termination of an Exempt Organization

- 2) Private Letter Rulings and Determination Letters

- 3) Audits of Exempt Organizations
 - a) Potential Examination Consequences
 - b) Examination Procedures
 - c) Power of Attorney

4) Help from the IRS

(This ends the information copied from the IRS website.)

Record Retention

Booster Clubs should establish a record file that is passed to the new officers each year. Some items need to be kept indefinitely while other items only need to be kept for a certain length of time. The record file should contain at least the following items on a permanent basis:

Permanent Record

- 1) Internal Records
 - a) Booster Club Registration & Approval Form
 - b) Articles of Incorporation/Articles of Association
 - c) Bylaws/Charter/Constitution
 - d) Minutes from meetings

- 2) State Records
 - a) Sales Tax Permit Application
 - b) Sales Tax Permit
 - c) Certificate of Incorporation from State of Kentucky (if applicable)
 - d) State Sales Tax Exemption Notification
 - e) State Franchise Tax Exemption Notification (if incorporated)

Federal Records

- 1) Copy of IRS Form SS-4, Application for Employer Identification Number
 - 2) Copy of IRS Form 1023, Application for Recognition of Exemption, with all attachments
 - 3) Copy of IRS Form 8718, User Fee for Exempt Organization
 - 4) Determination Letter Request, and copy of check sent to IRS with this form
 - 5) Acknowledgement of Your Request
 - 6) Determination Letter
 - 7) Copy of IRS Form 8734, Support Schedule for Advance Ruling Period
 - 8) IRS's notice granting a permanent exempt status to the organization, if applicable
- According to the IRS, Booster Clubs must keep each annual information return (i.e., Form 990, Form 990-EZ, or Form 990-N) for 3 years from the date the form is required to be filed or from the date the form is actually filed, whichever is later. However, if fraud is suspected or if returns have not been filed as applicable, the IRS could request information prior to the 3-year period discussed above.

Non-permanent Records

- 1) Internal Records
 - a) Financial Reports and Review Committee Reports
 - b) All financial backup including checkbook and banks records
 - c) Information related to contributions received by a Booster Club from individuals or businesses
 - d) Financial Aid Guidelines

- 2) State Records
 - a) Sales Tax Forms Filed
 - b) Copy of correspondence with the Kentucky Department of Revenue

- 3) Federal Records
 - a) Copy of IRS Forms 990, 990-EZ, or 990-N filed
 - b) Copy of correspondence with the IRS

Before discarding any records, confirm with the Kentucky Department of Revenue and the IRS that your organization is in good-standing and that there are no open items or issues.