

# Club Finance Fundamentals



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# Topics to cover today

- 1) Tax status of Democratic clubs
- 2) State political committees
- 3) Federal political committees
- 4) Local laws that may apply
- 5) Duties of the treasurer
- 6) Financial best practices

# First, the disclaimer ...



# Legally, what is a Dem club?

- Under the Internal Revenue Code, political entities are “527” organizations, which can all loosely be called PACs
- 527s are generally tax-exempt and not-for-profit, but they’re not charitable non-profits (i.e., “501” organizations)
- 527s that conduct certain activities may be required to open state and/or federal “committees” (a more concrete definition of PACs)

# Clubs in the eyes of the IRS

- There are several *potential* filing requirements for 527 organizations:
  - Initial notice (exempt if gross income is less than \$25K in a year)
  - Periodic reports (exempt for organizations that don't have to file the initial notice or that file as federal or state committees)
  - Income tax returns (exempt for organizations whose revenue consists only of contributions and dues)

Source: [www.irs.gov/charities-non-profits/political-organizations](http://www.irs.gov/charities-non-profits/political-organizations)

# Are you a state committee?

- “A [California] **general purpose recipient committee** is formed when an individual or group **receives contributions totaling \$2,000** or more in a calendar year for the purpose of supporting or opposing one or more state or local candidates or ballot measures or to make contributions to other political committees (e.g., a political party).”
- Tip: Always keep records of income and expenses so those can be reported retroactively if needed

# Initial filing for a state committee

- Within 10 days of receiving contributions totaling \$2,000 in a calendar year for political purposes, a committee must file a **Statement of Organization** (Form 410) with the Secretary of State by certified mail
- Form 410 asks for committee name, address, bank account, principal officers; is signed by treasurer
- \$50 fee paid to SOS required with filing and then annually (by January 15)
- Enforcement agency: Fair Political Practices Commission



# Regular state filings

- A Recipient Committee Campaign Statement (Form 460) must be filed periodically listing contributions, expenditures, and cash on hand for each reporting period
- Semi-annual and pre-election filings are required (may be filed electronically) by these deadlines:
  - In 2019: Jan. 31, July 31
  - In 2020: Jan. 23 (or Jan. 31), Feb. 20, Jul. 31, Sept., Oct.

# 24-hour reporting

- In the 90 days before an election, state committees must file a Late Contribution Report (Form 497) within 24 hours of an aggregate \$1,000 in contributions to or from a state or local candidate, ballot measure committee, or nonfederal party committee
- Failure to file on time may lead to penalties of \$10 for each day a statement is late; failure to file at all may incur additional penalties

# More state requirements

- A committee may not accept cash contributions or make cash payments of \$100 or more
- A committee may not keep petty cash of \$100 or more
- Contributions from foreign nationals are prohibited
- Non-monetary donations to a committee, or made to another committee, must be reported as in-kind contributions
- Copies of payments, receipts, and documents related to contributions must be kept for 4 years

# And ... more state requirements

- Anonymous contributions of \$100 or more are prohibited
- Individual contributions aggregating to \$100 or more in a year must include occupation/employer or else be returned in 60 days
- Fundraising solicitations (including for dues) must request the donor's name, physical address, occupation, and employer; no contribution limits apply
- Expenditures by a state committee for/against candidates must be independent – not coordinated with the campaign – and reported

# Also: Disclaimers

- All printed independent expenditure materials supporting or opposing candidates (doorhangers, flyers, mail, newspaper ads) must include a disclaimer with specific wording and formatting:
  - “Paid for by [Committee Name]. Not authorized by any candidate or a committee controlled by a candidate.”
  - Text must be in Arial-equivalent font, 10-point size in a contrasting color, centered horizontally in a box with a white background.
- Similar disclaimers apply for signage, paid phone calls, video, and electronic media.

# Are you a federal committee?

- “A **nonconnected [federal] committee** must register within 10 days of raising or spending **more than \$1,000 in contributions or expenditures [to influence federal elections]** during a calendar year.”
- Federal PACs that contribute to other federal committees may only accept funds from individuals and other federal committees, up to \$5,000 per donor per year
- Federal PACs that only make independent expenditures have no contribution limits (Super PACs)

# Federal filings

- For PACs / clubs, the initial filing after reaching the \$1,000 federal threshold is a Statement of Organization (Form 1) with the Federal Elections Commission
- Quarterly or monthly reports on receipts and disbursements (FEC Form 3) must be filed electronically or by mail
- Fines may be imposed for reports filed late



# Federal finance requirements

- Fundraising appeals must request the name, physical address, occupation, and employer of each donor who gives more than \$200 in a calendar year
- Cash contributions are limited to \$100 or less; anonymous contributions are limited to \$50 or less
- Contributions of \$50+ must be deposited within 10 days of receipt (or 30 days if a lesser amount)
- Requirements on disclaimers, in-kinds, record-keeping are similar to those for state committees

# Local campaign regulations

- Some local jurisdictions limit candidate contribution amounts, but not sources (Vista, Escondido, Encinitas...)
- Some jurisdictions further limit candidate contributions to **individual funds only** (County of San Diego, City of San Diego, S.D. Unified School District, Chula Vista...)
- Particularly in the City of San Diego, independent expenditures on behalf of a city campaign may trigger additional reporting and disclaimer requirements

# Special role for party organizations

- The law grants political parties greater latitude in campaign finance than candidate committees or other PACs, like higher contribution limits and a role in coordinated campaign activity
- In some races with restrictive limits on donor source and amount, a party can give much more, per election: \$11,400 for San Diego City Council (vs. \$600 per person), and \$27,600 for County Board of Supervisors (vs. \$850 per person)

# Member Communications

- State law permits membership organizations, including political parties, to spend unlimited funds on campaign communications with their members
- SDCDP has a Member Communications (MC) fund to reach out to registered Democrats in races where parties can have a greater impact due to contribution limits
- Donors – including clubs – may contribute to the party's MC efforts generally, but *may not* earmark donations

# Review of options for clubs

- Does your club want to be a PAC that bundles funds from its members to make contributions to candidates (excluding federal races, S.D. City / County, etc.)? Or want to raise money from organizations?
  - Recommendation: A state committee
- Does your club want to make contributions to federal races (up to \$5,000 per candidate per election)?
  - Recommendation: A federal committee
- Does your club want to avoid filing and reporting?
  - Recommendation: Stay below the \$2,000 (state) and \$1,000 (federal) annual thresholds

# Duties of a treasurer

- Deposit receipts
- Issue expenditures
- Ensure appropriate financial controls
- Prepare budget reports for the organization
- Reconcile bank statements with internal records
- For clubs that file as committees, prepare and monitor FPPC / FEC reports and ensure timely and accurate filing



# Do you need to hire a pro?

- A club with reporting obligations should strongly consider hiring a professional treasurer
- A club with no reporting obligations but significant financial activity may want a professional bookkeeper
- A treasurer's location may be less important than other factors – fees (monthly or hourly), level of services, etc.
- Most treasurers have their own preference for finance/reporting software (billed to the client)

# Some reporting software options

- **DirectFile** ([www.directfile.com](http://www.directfile.com))



- **NetFile** ([www.netfile.com](http://www.netfile.com))



- **NGP** ([www.ngpvan.com](http://www.ngpvan.com))



- **ISPolitical** ([www.ispolitical.com](http://www.ispolitical.com))



- **Aristotle** ([www.aristotle.com](http://www.aristotle.com))



# Best practices for deposits

- Always deposit cash in the bank before spending it
- Count cash at the immediate end of a fundraising event, preferably by two people
- Review bank statements for unauthorized transactions, and reconcile statements each month
- Reconcile bank records with disclosure reports prior to filing (if applicable)
- Reconciliations should be done by someone other than a check signer

# Best practices for expenses

- Limit the number of people who can sign checks
- Checks in or over a certain amount (e.g., \$500 or \$1,000) may be required to have the signatures of two signers
- Individuals who authorize disbursements or sign checks should be identified in writing in the club's policies or bylaws
- Get invoices and/or receipts for all payments
- Club bylaws can specify what expenditures need approval, and by what entity (e.g., expenses below a certain amount may be approved by the President or Board)

# More best practices

- The Board should regularly see bank statements and budget reports
- If you decide to use a petty cash system, keep the allocation less than \$100, put one person in charge of distributing the funds, and balance the funds with a paper ledger (attaching receipts)
- Record contribution dates as mail is opened, and deposit all contributions within 30 days of receipt (or return, if missing needed info)

# Records to keep

- For check or credit card contributions, a copy of the check (with the date received noted) or credit card receipt
- For cash contributions, a notation of the date received
- If a contribution or expense is non-monetary, a description of the item, date, and good-faith estimate of the market value
- Copies of all records associated with a checking account, including bank statements, cancelled checks, deposit slips, etc.
- For each expenditure, records on the date and amount, payee's name and address, description, and invoice/receipt

# Getting advice

- Fair Political Practices Commission: [www.fppc.com](http://www.fppc.com)
  - Visit the Advice page for informal help by phone, formal advice in writing, manuals, and webinars
- Federal Election Commission: [www.fec.gov](http://www.fec.gov)
  - Visit the Help section for guides, forms, and trainings
- CA Dem. Party Guidelines for Treasurers
  - [www.cadem.org](http://www.cadem.org) > Our Party > Finance
- SDCDP Office: (858) 277-3367 / [ryan@sddemocrats.org](mailto:ryan@sddemocrats.org)

# Recap

- If a club doesn't want / need to be a PAC that contributes \$1,000s, it can avoid filing requirements by staying below the annual thresholds
- If you do file as a committee, know the rules and use a reliable treasurer or bookkeeper
- Adopt and follow financial best practices to limit risk of misappropriation or legal liability
- Don't hesitate to ask for help!

# Q&A

