APA Chapter Financial Management Guide

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1.0 Introduction *(Click here to return to the top)*

1.1 Purpose of these Guidelines

The APA Chapter Financial Management Guide provides a toolkit for chapter treasurers for accounting, financial internal controls and tax filing requirements. While the guide is not extensively detailed on these subjects, it will familiarize chapter treasurers with essential information for handling chapter financial record keeping, establishing internal controls and complying with certain IRS and legal requirements. This information is relevant and important for all chapters, regardless of membership size.

1.2 Roles and Responsibilities of the Treasurer and Officers

The chapter board and treasurer have a fiduciary duty to oversee all aspects of financial management and safeguard the organization's finances. In summary, they are responsible for:

- General financial oversight which includes appropriate financial systems and controls
- Financial reporting which includes regular reports on the chapter's financial position, timely submission of bank & investment Statements to the national office, and tax returns
- Banking, bookkeeping and recordkeeping, which includes ensuring that everyone handling financial transactions keeps proper records and documentation

Each chapter treasurer is accountable for the receipt and disbursement of all funds for his/her chapter. It is also his/her responsibility to maintain adequate records that reflect the financial status and transactions of the chapter. Software packages are available commercially to assist with accounting tasks and responsibilities.

For larger chapters, it may be necessary to seek professional assistance (such as a CPA) to set up and maintain records; however, the ultimate responsibility for all financial records rests with the chapter treasurer.

APA staff members are available to serve as resources for questions or comments and can be reached at ljorgenson@planning.org or phone 312-786-6721.

1.3 Liability Insurance

Carrying liability insurance is an option which many chapters exercise for their own protection.

Chapter officers and directors are responsible for exercising reasonable care over the assets of their chapter. Personal liability may arise from acts in violation of the corporate charter or applicable State or Federal law. Other liabilities may arise due to employment-related claims such as discrimination, wrongful termination or defamation. Therefore, each chapter should consider purchasing liability insurance to protect itself, its employees (such as a chapter management professional or staff), and its officers and directors.

A local insurance agent can provide information or quotations on such insurance.

2. Incorporation *(Click here to return to the top)*

Incorporating a chapter provides a measure of protection for members of the chapter from personal liability for chapter obligations and from liability if chapter officers, directors, or if staff violate the law. Each chapter should file for corporate status according to its particular State's not-for-profit laws. Most of the States have adopted special laws that govern incorporation of not-for-profit entities and have created guidelines for the operation of not-for-profit entities. Further, the IRS requires certain information be included in the articles of incorporation or charter. Each chapter should consider retaining an attorney and/or a CPA to advise on the incorporation application process for not-for-profits.

2.1 Employer Identification Number

Each chapter has its own employer identification number (EIN), also referred to as a Federal tax ID number. This nine-digit number is used for filing income tax returns. Most banks and financial institutions require this number to set up accounts for your chapter.

If you are unaware of the chapter's EIN, please contact APA staff for that information. Chapters may not use APA's Federal tax identification number.

2.2 Not-for-Profit vs. For-Profit Organizations

The terminology used to describe associations often generates confusion. Consequently, it is useful to clarify two key terms. An association is generally organized and operated as both a not-for-profit and tax-exempt entity. Not-for-profit refers to incorporation status under State law; tax-exempt status refers to Federal income tax exemption under the Internal Revenue Code.

It might reasonably be concluded that as not-for-profit, tax-exempt entities, associations may not earn profits (income greater than expenditures) and that they need not pay any taxes. Neither conclusion is correct.

Even though they are not-for-profit organizations, associations are permitted to generate income that is greater than expenses and still retain their not-for-profit status.

Not-for-profit organizations undertake programs to benefit members and the public, rather than private individuals. Therefore, their earnings must, by law, be dedicated to furthering the purposes for which they were organized. Not-for-profit organizations have no shareholders and pay no dividends — all earnings are "reinvested", or maintained, in the organization in furtherance of its not-for-profit purposes.

2.3 Tax Exemption

Not-for-profit organizations may apply for tax exempt status, so that the organization is exempt from income tax and other taxes. To be exempt from Federal or State income taxes the organization must meet the requirements set forth by the Internal Revenue Service (IRS). Federal tax-exempt status does not guarantee exemption from State and local taxes, and vice versa. These exemptions generally have separate application processes and their requirements may differ from the IRS requirements.

The IRS, after reviewing the application to ensure the organization meets the conditions to be recognized as a tax exempt organization (such as the purpose, limitations on spending, and internal safeguards), may issue an authorization letter to the not-for-profit granting it tax exempt status for income tax payment, filing, and deductibility purposes.

This income exempt status does not apply to other Federal taxes such as employment taxes. Additionally, a tax-exempt organization must pay Federal tax on income that is unrelated to their exempt purpose. Failure to maintain operations in conformity with the laws may result in an organization losing its tax exempt status. Individual States and localities offer not-for-profits exemptions from other taxes such as sales tax or property tax.

Furthermore, even a tax exempt organization may be required to file annual financial reports (IRS Form 990) at the State and Federal level. A tax exempt organization's 990 forms are required to be made available for public review.

2.3.1 Federal Tax Exemption

Most not-for-profit organizations qualify for Federal income tax exemption under one of the 25 subsections of Section 501(c) of the Internal Revenue Code. Most associations are tax-exempt under sections 501(c)(3) or 501(c)(6). In addition, many 501(c)(6) associations form related educational foundations exempt under Section 501(c)(3).

This Federal tax-exempt status means that an organization is exempt from paying corporate Federal income tax on income generated from activities that are substantially related to the purposes for which the entity was organized. In other words, the purposes for which the organization was granted tax-exempt status in the first place. The organization does, however, pay corporate Federal income tax (at standard corporate rates) on income unrelated to its tax-exempt purposes, called the unrelated business income tax (UBIT).

2.3.2 State Tax Exemption

Organizations that meet the requirements for Federal tax exemption generally rely on that status to exempt their income from State income tax. However, this status is not automatic. Each State has separate application requirements to obtain State tax exemption. Consult with a CPA regarding your individual State's exemption rules.

3. Methods of Accounting *(Click here to return to the top)*

The method of accounting chosen (cash or accrual) is dependent on the results desired. When budgets and actual results are measured only by increases and decreases in cash, then accounting on the cash method is adequate. If, on the other hand, budgets and results are measured by matching income and related expenses in the same period, then the accrual method of accounting is recommended. This would be true regardless of the dollar amount involved. We recommend the accrual method for chapters that have grown to over $50,000 in annual income because it more accurately reflects the financial position and results of the chapter.

3.1 Cash Basis

The cash method recognizes income and expenses when cash physically flows in and out of bank accounts. Income and expenses are recorded when cash is physically received or disbursed. The cash method is often used because of its simplicity.

3.2 Accrual Basis

The accrual method recognizes income when it is earned, and expenses when the obligation or liability has been incurred, regardless of when the cash transaction takes place. The earning of income and incurring of expense do not necessarily happen at the same time that the cash transaction takes place. The accrual method is typically used by larger chapters, and is also used by APA. It may require a skilled bookkeeper or accountant.

4.0 Internal Controls *(Click here to return to the top)*

Internal controls represent the procedures adopted within an organization to safeguard its assets and check the accuracy and reliability of its accounting data. Strong internal controls can help minimize the possibility of misappropriation of assets or misstatement of accounts while maximizing the likelihood of prompt detection if they do occur. Chapters should adopt Financial Management Procedures that identify internal controls, division of duties, when board approvals are needed, etc.

4.1 Segregation of Duties

Segregating duties so that more than one person handles and records each transaction is one of the highly regarded methods for increased internal controls. The role of authorizing transactions, having custody of assets, and record keeping should be separated. The primary purpose of this is to ensure that more than one set of eyes checks each transaction for accuracy. Control measures to consider:

- One individual should not be responsible for an entire financial transaction.
- *Money Coming In*: No single individual should be responsible for receiving, depositing, recording and reconciling the receipt of funds.
- *Money Going Out*: No single individual should be responsible for authorizing payments, disbursing funds and reconciling bank Statements.

4.2 Bank Accounts & Reconciliations

A bank reconciliation is a process that explains the difference between the bank balance shown in an organization's bank statement as supplied by the bank and the corresponding amount shown in the organization's own accounting records at a particular point in time. Some steps the chapter should consider when reconciling:

- An officer should receive the bank statements instead of the person keeping the books. This officer should review the canceled checks and entries on the statement and investigate any suspicious payments before forwarding the bank statement to the person who prepares the bank reconciliation.
- Bank accounts of the chapter should be reconciled on a monthly basis. A timely reconciliation alerts the chapter of any differences between its records and the cash transactions processed by its bank. Any discrepancies should be investigated immediately.
- A person who has no cash handling responsibilities (preferably an officer) strengthens the chapter’s internal controls by reviewing the monthly cash reconciliation to ensure that the transactions are executed in accordance with the chapter board's authorization.
- Check signers should not reconcile the checkbook. However, if the treasurer does the reconciliation, another chapter officer or administrative staff person should compare the reconciliation report to the bank statement. Additionally, limit the number of persons with check-signing authority. However, chapters need to ensure there are a sufficient number of signers to ensure prompt payment of liabilities.
- Avoid retaining excessive amounts of cash in the checking account; invest excess cash in a savings account, money market account, or certificate of deposit.

4.3 Reviews and Approvals

All invoices should be approved by an appropriate individual before the check is issued. In order to document such approval, documents supporting the disbursement should be initialed by an appropriate officer.

Additionally, supporting documentation, such as invoices or letters, should be attached to a copy of every check, and then filed after issuance of the check. Scanning invoices and keeping a digital copy will save space and make transition to a new Treasurer easier. A back-up copy of everything should be made on a regular basis. Mark or stamp all invoices "PAID" to avoid duplication of payment.

All payments should be made only by check, never cash. Payments made by check decrease the likelihood of misappropriation and provide an audit trail.

4.4 Preparation of Financial Statements

The routine preparation of financial Statements provides the chapter with financial information to manage the assets of the chapter and fund their activities. They represent the culmination of all transactions. Financial Statements should be prepared monthly and compared to the prior year's period as well as the current year budget for the same period. Variances observed from this review process should be researched and explained. There are software packages available that can assist you in preparing financial Statements:

Not-for-profits refer to their financial statements in a different manner than for profit companies, e.g.:

- Statement of Financial Position (instead of Balance Sheet)
- Statement of Activities (instead of Profit & Loss Statement or Income Statement)

4.4.1 Financial Pronouncements (e.g. FASB, GAAP, etc.)

In addition to practicing sound financial management, a not-for-profit organization must also comply with a diverse array of legal and regulatory requirements.

The Financial Accounting Standards Board (FASB) is a not-for-profit organization dedicated to setting the guidelines and standards for accounting practices and procedures in the United States. The organization outlines the fundamental principles for the preparation of financial reports so that reporting and accounting procedures are consistent and accurate across all types of industries and financial markets

Generally Accepted Accounting Principles (GAAP) are a common set of accounting rules, standards and procedures. They are used to prepare, present and report financial Statements for publicly traded and privately held companies, not-for-profit entities and Federal and State governments in the United States. GAAP are not written in law, but are a combination of authoritative standards set by policy boards that help organizations, creditors, investors and auditors make better financial decisions. These decisions help the economy run more efficiently.

4.4.2 Statement of Financial Position

The Statement of Financial Position shows financial position as of a specific date which is normally the last day of the month. This Statement reflects how total assets equal the total of liabilities and net assets. The Statement of Financial Position helps measure the financial stability of an entity. It records the properties (assets) owned by the entity, the amounts due to third parties (liabilities), the net assets, including amounts restricted for specific uses other than everyday use (restricted net assets).

4.4.3 Statement of Activities

The Statement of Activities measures financial results of activities over a period of time, (i.e., for one month ending or three months ending, etc.)

5.0 Financial Transactions *(Click here to return to the top)*

All business transactions of the chapter must be documented on a timely basis in a journal. Each transaction should include the date of the transaction, the amount of the receipt or disbursement, and an indication of check or cash. For a cash transaction, proof of the cash receipt or disbursement should be retained.

5.1 Receipts

5.1.1 Checking Accounts and Check Endorsements

A checking account (interest bearing, if possible) should be established in the chapter's name. The chapter has its own employer identification number to establish an account. Do not use the treasurer's or any other individual's social security number to open this account. Please contact APA staff if you are unsure of the chapter's EIN.

Authorized check signers may vary from chapter to chapter. For smaller chapters, the signers may be the officers. For larger chapters, it may be the executive director, chapter management professionals, chapter president and treasurer.

The chapter's money should NEVER be kept in any officer's personal checking account. This would constitute co-mingling of funds, and could result in tax problems for the officer.

A good control over cash disbursements is to require two signatures on every check or perhaps on checks over a certain pre-determined dollar amount.

All payments should be made by check, never cash. Payments made by check decrease the likelihood of misappropriation and provide an audit trail. Also, checks should always be written to a specific payee, not to "cash."

5.1.2 Timely Deposits and Support

When checks are received, they should be restrictively endorsed "For Deposit Only" with the full name of the chapter (never use acronyms) and the chapter's bank account number. A stamp containing this information is appropriate. Deposits should be made as soon as possible after the remittance is received. Once deposits are made, the deposit slip stamped by the bank should be attached to the copies of checks and remittance advice supporting such deposit.

The deposit should then be recorded in the chapter's checkbook and general ledger in a timely manner. This step assists in the detection of errors made by either the chapter or bank. It also ensures that the financial records of the chapter are current.

Documentation supporting a deposit should be maintained on file in chronological order. A well-organized filing system is not only necessary for day-to-day operations, but is also essential in establishing an audit trail to verify the propriety of a transaction from the accounting records to the source of the transaction.

Utilizing a bank's lockbox system to receive checks and cash greatly reduces the possibility of irregularities occurring on deposits. However, the cost of maintaining a lockbox may be prohibitive for smaller chapters.

If a lockbox is not practical, photocopies of the check should be made and attached to the remittance advice (i.e. invoice, application, transmittal letter, bill, order, etc.).

5.1.3 Receipts Journal

Used to summarize all receipts. Will be used whether cash or accrual method of accounting is used. We strongly recommend bookkeeping software like Quickbooks; however, for smaller chapters, use of a checkbook as a receipts journal can suffice if no other means is possible.

5.2 Disbursements

5.2.1 Supporting Documents (e.g. invoices, receipts, etc.)

Supporting documentation, such as invoices or letters, should be attached to a copy of every check and deposit, and then filed after recording in a ledger by date of issuance or receipt.

5.2.2 Review and Approvals

All invoices or requests for disbursement should be approved by an appropriate individual before the check is issued. In order to document such approval, documents supporting the disbursement should be initialed by the appropriate individual.

5.2.3 Travel and Meal Reimbursement

Travel and meal reimbursements for expenses incurred by chapter officers and members should follow the same authorization and documentation requirements as other disbursements of the chapter.

A standard expense reimbursement form should be utilized to summarize and document the business purpose of each expense. Original receipts should be attached to the form supporting the expense. The expense form should be signed by the person requesting the reimbursement.

One officer, other than the person requesting reimbursement, should review and approve the expense reimbursement form and supporting documentation for propriety prior to the disbursement being made.

The chapter may also want to establish policy guidelines (or create an internal operations guide) regarding the types of travel and accommodation arrangements that are considered reasonable and acceptable. You can contact APA for a copy of our Travel & Expense Reimbursement Form.

5.2.4 W-9 Forms for Payments to Individuals & Companies

Additionally, the chapter must request a Form W-9 from any individual or company receiving payment for services rendered http://www.irs.gov/pub/irs-pdf/fw9.pdf. This is a document that is used when a person or corporation provides services to the chapter such as consultation, honorariums, independent contractor, etc. The Taxpayer Identification Number (TIN) is a Social Security Number for a person and an Employer Identification Number for a company or organization.

5.2.5. Disbursements Journal

Used to summarize all disbursements. Will be used whether cash or accrual method of accounting is used. We strongly recommend bookkeeping software like Quickbooks; however, for smaller chapters, use of checkbook as a disbursements journal can suffice if no other means is possible.

5.3 General Journal

Used to summarize transactions that do not "fit" in the other journals; that is, transactions that may not necessarily be related to the physical flow of cash, (e.g., depreciation). The general journal is usually used for the accrual method of accounting. The format allows you to record journal entries. The information needed for the journal entries includes an entry number, account descriptions, and the debit and credit for each entry. A description detailing the purpose of the journal entry should always be included in the journal.

Note that the term "cash" for these journals means currency, checks or charge card transactions, not just cash itself.

At a minimum, all chapters should summarize the activities of their journals into Financial Statements, quarterly.

6.0 Financial Reporting *(Click here to return to the top)*

6.1 Chapter & Section Financial Reporting

The finances of APA and its component groups – AICP, chapters and divisions – are consolidated and reported in a single financial statement for the annual audit. The sections of each chapter are an integral part of the chapter. Therefore, any chapter reporting must include their section activities as well.

6.1.1 Chapter Reporting to National

Components need to submit regular financial reports to National based on a fiscal year beginning October 1 and ending September 30th.

On a Quarterly Basis:

Bank statements, broker statements and CD(s) must be reported to the national office each quarter end for audit purposes—12/31, 3/31, 6/30 & 9/30. This reporting must include all section balances as well.

On an Annual Basis:

990's filed with the IRS for the total chapter financial activity, including all sections

6.1.2. Sections Reporting to Chapter

Many chapters have sections. Legally, sections are not recognized as components of APA national, but are considered part of the chapter. Chapters are responsible for ensuring that their sections comply with quarterly reporting of their financials which should include all bank statements, investment broker statements, and CDs.

Section financials must be consolidated into the chapter's financial reporting and on their annual 990 tax filings.

6.2 Preparing an Annual Budget

Budget preparation is the process of creating a financial plan for paying future obligations; and developing one is an essential part of a not-for-profit's health and sustainability. Your budget should use a one-year time frame to illustrate the amount of revenue your chapter expects to receive, and show how much money it expects to spend for program services. Additionally, the chapter should develop a separate budget for each program it operates. By doing this, you'll be able to pinpoint which programs are not operating efficiently. The following are basic steps that you can incorporate when developing a budget for your chapter.

6.2.1 Budget Evaluation and Review

- <u>Evaluation and Review</u> – Chapters should review past years' actual financial performance to help predict your budget for the upcoming year. Since your year-end statement of activities summarizes your past years' financial activity, it can be used as a tool for developing your current-year budget.
- <u>Identify Program Objectives</u> – Identifying your chapter's program objectives is a vital step in developing your budget. This process gives a clear vision by identifying the programs, services and projects your chapter plans to carry out in the upcoming year. The current-year objectives should fit into the chapter's long-range strategic plan; and should move the chapter towards the realization of its overall mission and goals.
- <u>Identify Program Needs</u> – Next, planning the budget should include identifying the program needs associated with meeting the objections determined above. Your program needs may include program supplies, speaker costs, insurance, and facility rent. You should also determine if each need is either fixed (the cost of this need is the same from month to month) or variable (the cost of this need changes from month to month).

6.2.2 Cost and Revenue Estimations

- <u>Estimate Program Costs</u> – Estimating the costs associated with the program needs is the next phase to developing the chapter's budget. Prior-year expense reports, investigations of prices for goods/services, and year-end financial reports can all be used to accomplish this task.
- <u>Estimate Revenues</u> – Revenue estimates in the budget should only include income that your chapter is certain that it will obtain. Revenue projections can be aligned with the chapter's current-

year fundraising plan, and it can also be compared to the revenue received in the prior year.

- Compare Revenues to Expenses – Finally, once you have an idea of the revenue the chapter will generate, and you've estimated your expenditure requirements, you should subtract the predicted expenses from the predicted revenues. If your calculation reveals a large surplus (total income largely exceeds total expenses) or a large deficit (total expenses largely exceed total income), then you can either increase/reduce your spending for the budget to balance appropriately.

Input from the board should all be incorporated in the development of the budget. Once completed to everyone's satisfaction, all key players should approve the budget, and the completed budget should be voted on and approved by the board members.

6.3 Other Financial Reporting

6.3.1 Investments

Each chapter must evaluate its own financial situation and cash flow needs when making investment decisions.

To guide the investment of excess funds (funds not currently required for normal operating expenses), an investment policy should be established and approved by the chapter's board.

Different types of investments take on varying degrees of risk, cost and income. For example, U.S. Treasury Bills and Notes are backed in full by the United States Government and are virtually risk free. Also, some types of investment vehicles assess penalties for early withdrawals. These factors should be considered prior to making any investment choices. Certificates of deposit (CDs) also have relatively low risk.

Mutual funds, corporate stocks and bonds are less conservative investments with greater risk. Typically, the greater the opportunity for appreciation and income, the more risk associated with an investment.

6.3.2 Reserves

Typically, a chapter should maintain investments that enable it to withstand a downturn in the economy, loss of members, or other unexpected event. Most not-for-profit organizations work toward accumulating investment reserves that are equal to 50% — 100% of their budgeted operating expense. Investment decisions depend upon the needs and circumstances of each chapter.

6.3.3 Unrelated Business Income

Unrelated business income (UBI) is revenue generated by a tax-exempt organization that possesses all three of the following characteristics:

- It must be from a trade or business;
- It must be from a trade or business that is not substantially related to carrying out the exempt purpose for which the organization exists; and
- The trade or business must be regularly carried on.

The term trade or business generally includes any activity carried on for the production of income from selling goods or performing services.

To determine whether a business activity is substantially related requires an examination of the relationship between the business activities that generate the particular income in question and the accomplishment of the organization's exempt purpose.

A trade or business is related to exempt purposes, in the statutory sense, only when the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income). The causal relationship must be substantial. The activities that generate the income, to be substantially related, must contribute importantly to the accomplishment of the organization's exempt purpose.

In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function that they intend to serve.

Business activities of an exempt organization ordinarily will be considered to be regularly carried on if they show a frequency and continuity and are pursued in a manner similar to comparable commercial activities of nonexempt organizations. The following revenue sources are generally excluded from tax on unrelated business income:

- Dues
- Dividends
- Annuities
- Royalties
- Contributions

- Proceeds from the sale of goods or services produced in the course of the organization's exempt function (such as benefits survey sales)
- Income from any trade or business in which substantially all the work is performed by volunteer labor
- Any trade or business carried on for the convenience of members
- Selling donated merchandise or gifts
- Exhibits and sponsorships

The following revenue sources are generally included in the computation of unrelated business income:

- Advertising in publications (e.g. newsletters, membership directories, websites etc.) or other types of media

Note: If you believe your chapter has unrelated business income, you should contact a CPA to discuss the details.

7.0 Audits and Record Retention *(Click here to return to the top)*

Audits

As a matter of sound business practices, a periodic chapter audit is recommended. Please check with a local CPA regarding the frequency of auditing for your specific chapter.

Other types of financial Statement assessment services that a CPA may offer:

- Compilation – In a compilation, CPAs place financial information into a standard financial Statement format but do not express an opinion on the organization's financial Statements as performed in an audit.
- Review – In a review, accountants make sure there are no significant departures from GAAP or OCBOA (Other Comprehensive Basis of Accounting). Reviews assess whether financial Statements make sense. In the continuum of services offered by CPAs, the assurance provided by a review is less comprehensive than that provided by an audit but more comprehensive than that provided by a compilation.

Record Retention

The following listing contains suggested holding periods for various types of records the chapter may have. Attention should be given to potential requests by government auditors in making the final determination for your chapter.

Accident reports/claims (settled cases) - 7 years
Accounts payable ledgers and schedules - 7 years
Accounts receivable ledgers and schedules - 7 years
Audit reports - Permanently

Bank reconciliations - 5 years
Bank Statements - 5 years
Cash books - Permanently
Chart of accounts - Permanently
Checks (canceled-see exception below) - 7 years
Checks (canceled for important payments, i.e., taxes, special
Contracts, etc.). Checks should be filed with the papers pertaining to the underlying
Transaction - Permanently
Contracts, notes and leases - 7 years from expiration
Correspondences (general) - 3 years
Correspondence (legal and important matters only) - Permanently
Correspondence (routine) with members and/or vendors - 3 years
Duplicate deposit slips - 3 years
Employment applications - 3 years
Expense analyses/expense distribution schedules - 7 years
Financial Statements (year-end, other optional) - Permanently
General/private ledgers - Permanently
Insurance records, accident reports, claims, policies, etc. - 3 years from expiration
Internal audit reports (longer retention periods may be desirable) - 3 years
Internal reports (miscellaneous) - 3 years
Invoices (from vendors) - 7 years
Journals - Permanently
Meeting minutes and chapter bylaws - Permanently
Purchase orders - 7 years
Sales records - 7 years
Stock and bond certificates (canceled) - 7 years
Tax returns, worksheets and other documents relating to determination of income
Tax liability - Permanently
Withholding tax Statements - 7 years

8.0 Tax Filings *(Click here to return to the top)*

Annual Information Returns

All chapters must file an annual information return. The form to be filed depends on the annual gross receipts of the organization.

Forms

990-N Chapters with annual gross receipts up to $50,000 must file a very simple electronic filing with the IRS once a year. The form is called an e-Postcard or a Form 990-N.

How to file a 990-N

To electronically submit Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990EZ*, use the Form 990-N Electronic Filing System (e-Postcard).

- The Form 990-N electronic-filing system moved from Urban Institute's website to IRS.gov in February. **All filers** must register at IRS.gov prior to filing their next Form 990-N. This is a one-time registration; you won't be asked to register again when filing next year.
- Form 990-N must be completed and filed electronically. **There is no paper form**.
- Form 990-N filers may choose to file a complete Form 990 or Form 990-EZ instead.
- Use the Form 990-N Electronic Filing System (e-Postcard) User Guide while registering and filing.
- For filing system and website issues, see How to File: Frequently Asked Questions. If site issues are unresolved, call TE/GE Customer Accounts Services at 877-829-5500. A representative will file your Form 990-N information.
- Organizations should continue efforts to file, even if late.

Prior to filing your form, please review the following information:

Who must file

Most small tax-exempt organizations whose annual gross receipts are normally $50,000 or less can satisfy their annual reporting requirement by electronically submitting Form 990-N if they choose not to file Form 990 or Form 990-EZ instead.

Exceptions to this requirement include:

- Organizations that are included in a group return,
- Churches, their integrated auxiliaries, and conventions or associations of churches, and
- Organizations required to file a different return

Form 990-N filing due date

Form 990-N is due every year by the 15th day of the 5th month after the close of your tax year. **You cannot file the *e-Postcard* until after your tax year ends.**

> **Example**: If your tax year ended on December 31, the *e-Postcard* is due May 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

If your 990-N is late, the IRS will send a reminder notice to the last address we received.

While there is no penalty assessment for filing Form 990-N late, organizations that fail to file required Forms 990, 990-EZ or 990-N for three consecutive years will automatically lose their tax-exempt status. Revocation of the organization's tax-exempt status will happen on the filing due date of the third consecutively-missed year. Watch this IRS YouTube presentation for more information.

Information you will need when filing Form 990-N

Form 990-N is easy to complete. You'll need only eight items of basic information about your organization.

Search for Form 990-N filings

To search for organizations that have filed Form 990-N and to view their filings, see *Exempt Organizations Select Check*. You can also download the entire database of Form 990-N filings.

Additional information

- Frequently Asked Questions - Form 990-N
- User Guide for Form 990-N Electronic Filing System (e-Postcard)
- Form 990 Overview course at StayExempt.IRS.gov
- Frequently Asked Questions - Automatic revocation for not filing annual return or notice

Form 990EZ Short Form Return of Organization Exempt from Income Tax. Used if gross receipts are more than $50,001 but less than $200,000. A Form 990 can be filed in lieu of this return.

Form 990 Return of Organization Exempt from Income Tax. Used if gross receipts exceed $200,000.

Schedule A Organization Exempt Under Section 501(c) (3). Must be filed with Form 990 or Form 990EZ if the chapter is exempt under section 501(c) (3).

Schedule B Schedule of Contributors. Must be filed by all organizations required to file Forms 990 or 990EZ to provide contributor information if amounts are noted on line 1 of the forms.

Form 990T Exempt Organization Business Income Tax Return. The purpose of this return is below under "*State Filings*."

All of these forms are due on the 15th day of the fifth month after the chapter's year-end.

Other Filings

A chapter must file Form 1099-MISC for each person or corporation to whom it has paid at least $600 during the calendar year for any of the following:

• Services that were not performed as an employee (e.g., independent contractor, speakers, etc.)
• Prizes and awards
• Rents or royalties

Form 1099-MISC is due to the recipient by January 31.

State Filings
If Form 990T is filed and the chapter owes unrelated business income tax, it may be necessary to file a State corporate income tax return. You also may be required to file a copy of your Federal Form 990 with the State in which you do business. You should contact a CPA to determine these specific requirements.

For more detailed information on IRS information returns, please contact Lynn Jorgenson (ljorgenson@planning.org) for the Guide to Chapter IRS Information Returns.

9.0 Glossary of Terms *(Click here to return to the top)*

The following glossary is provided as a reference for terminology used by APA for various financial and accounting concepts.

990 – The Form 990, 990-EZ, 990-T and the new Form 990-N are used by tax-exempt Organizations to provide the Internal Revenue Service (IRS) with the information required by their code.

All Chapters are separate corporations and therefore must file or be consolidated with one of the following-- Form 990, 990-EZ or the new 990-N Divisions are not required to file a 990 because they are not separate corporations.

1099 – Form 1099 is a form promulgated by the Internal Revenue Service (IRS) and is used in the United States income tax system to prepare and file an *information return* to report various types of income other than wages, salaries, and tips. U.S. tax law requires businesses to submit a Form 1099 for every contractor paid at least $600 for services during a year. This requirement usually does not apply to corporations receiving payments.

Account Payable - Amount owed to a CREDITOR for delivered goods or completed services.

Account Receivable - Claim against a DEBTOR for an uncollected amount, generally from a completed transaction of sales or services rendered.

Accrual Basis Accounting – An accounting terminology that is often contrasted with "Cash Basis Accounting". It refers to how revenue and expenses are recorded. Under accrual accounting, revenue is recorded when it is earned and realized, regardless of when actual payment is received. Similarly, expenses are "matched" (a process known as "matching principle" regardless of when they are actually paid. Accrual accounting is required by U.S. GAAP (U.S. Generally Accepted Accounting Principles).

Asset - An economic resource that is expected to be of benefit in the future. Anything of value to which the association has a legal claim. Any owned tangible or intangible object having economic value useful to the owner.

Audit – A financial audit is an examination of an organization’s financial systems and transactions at the end of a year by an independent, certified, professional auditor. The audit, which determines conformity with Generally Accepted Accounting Principles, is an assessment or professional judgment on the financial Statements prepared by an organization’s management.

Balance Sheet – In financial accounting, a balance sheet or Statement of financial position is a summary of the value of all assets, liabilities and Net Assets for a specific date, such as the end of its financial year. The difference between the assets and the liabilities is known as the net assets or the net worth of the company. A balance sheet is often described as a "snapshot" of a company's financial condition on a given date. Of the three basic financial Statements, the balance sheet is the only Statement which applies to a single point in time, instead of a period of time.

Bank Reconciliation - A Bank reconciliation is the process of matching and comparing figures from accounting records against those presented on a bank Statement. A bank reconciliation allows companies or individuals to compare their account records to the bank's records of their account balance in order to uncover any possible discrepancies.

Book balance – The summarized account balance from the normal course of business Transactions. A document is produced each time a transaction occurs. Sales and purchases usually have invoices or receipts. Deposit slips are produced when deposits are made to a bank account. Checks are written to pay money out of the account. Using the rules of double entry, these transactions are then transferred to their respective accounts in the ledger, or book of accounts.

Budget - Financial plan that serves as an estimate of future revenue and expenses.

Cash Basis Accounting - Cash-basis accounting is a method of bookkeeping that records Financial events based on cash flows and cash position. Revenue is recognized when cash is received and expense is recognized when cash is paid. In cash-basis accounting, revenues and expenses are also called cash receipts and cash payments. Cash-basis accounting (as compared to “Accrual Basis Accounting”) does not recognize Promises to pay or expectations to receive money or service in the future, such as payables, receivables, and prepaid or accrued expenses.

Certified Public Accountant (CPA) – The only type of accountant who can audit an organization’s financial Statements and issue an opinion on the fairness of the information submitted in financial Statements.

Chart of Accounts - A chart of accounts is a listing of the names of the accounts that a

Company has identified and made available for recording transactions in its general ledger. These accounts should be designed to capture financial information to make good financial decisions. Each account name in the chart is assigned a unique identifier. Each account is classified into one of the five categories: assets, liabilities, net assets, revenue (income) and expenses. A company has the flexibility to tailor its chart of accounts to best suit its needs, including adding accounts as needed.

Compilation – A report in which CPAs determine whether financial Statements are in the proper form, free of mathematical errors and carry appropriate disclosure Statements. The compilation is the least comprehensive of primary types of assessments of not-for-profit finances. CPAs also perform audits and reviews. No opinion is expressed in a compilation.

Consolidated Financial Statements - Combined financial statements of a parent Company and one or more of its subsidiaries as one economic unit.

Deficit - An overdraft occurs when withdrawals from a bank account exceed the available balance which gives the account a negative balance - account can be said to have gone "Overdrawn."

Financial Statements
Financial Statements provide an overview of a business' financial condition in both short and long term. There are three basic financial Statements:
1. **Statement of Financial Position**: also referred to as a balance sheet, reports on a Company's assets, liabilities and net assets as of a given point in time.
2. **Statement of Activities, and also referred to as Income Statement:** or Profit and Loss Statement "P&L", reports on a company's revenue and expenses over a period of time.
3. **Statement of Cash Flows:** reports on a company's cash transactions, particularly its Operating, investing and financing activities.

Fiscal Year - A fiscal year (or financial year) is a 12 -month period used for calculating annual ("yearly") financial Statements in organizations. Fiscal years vary between businesses. A fiscal year is often specifically established not to match the calendar year so that accounting year-end work does not coincide with periods of high activity, such as major events or holiday periods.

Generally Accepted Accounting Principles (GAAP) - Conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The highest level of such principles are set by the Financial Accounting Standards Board (FASB).

General Ledger Account - The general ledger is a summary of all of the transactions that occur in the company. It is built up by posting transactions recorded in the general journal. There are five basic categories in which all accounts are grouped—Assets, Liabilities, Net Assets, Revenue, and Expenses

Internal Controls - A process, effected by an organization's people and information technology (IT) systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.)

Journal of Receipts – a record of all funds received—date, amount and description

Journal of Disbursements – a record of all disbursement of funds-date, amount and description

Liability - debts or obligations owed by one entity (debtor) to another entity (creditor) payable in money, goods, or services.

Net Assets – The term Net Assets is commonly used with not-for-profit entities. Although these entities are not in the business to make money, it is important to maintain reasonable reserves to help future growth. For profit organizations use the terminology net worth, or shareholders' equity

Profit and Loss Statement (P&L Statement) – See Statement of Activity

Revenues - Sales of products, merchandise, services, dues and earnings from interest, dividends, and rents.

Review – In a review, CPAs make inquiries about an organization's financial Statements and apply analytical procedures to identify areas needing explanation. In a review, accountants make sure there are no significant departures from GAAP. Reviews assess whether financial Statements make sense. In the continuum of services offered by CPAs, the assurance provided by a review is less comprehensive than that provided by an audit but more comprehensive than that provided by a compilation.

Segregation of duties - Segregation of duties is the concept of having more than one person required to complete a task. It is alternatively called segregation of duties. Segregation of duties is one of the key concepts of internal control and is the most difficult and sometimes the most costly one to achieve. In essence, segregation of duties implements an appropriate level of checks and balances upon the activities of individuals. Segregation of duty, as a security principle, has as its primary objective, the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. This principle is demonstrated in the traditional example of the requirement of two signatures on a check.

For segregation of duties, business critical roles can be categorized into four types of functions: authorization, custody, record keeping, and reconciliation. In a perfect system, no one person should handle more than one type of function.

Three general categories of functions must be separated:
- authorization
- recording, e.g. preparing source documents or financial statements
- Custody of asset whether directly or indirectly, e.g. receiving checks in the mail or implementing source code or database changes.

Statement of Activities - Summary of the effect of revenues and expenses over a period of time; see Financial Statements

Statement of Position - Also referred to as a "Balance Sheet"; see Financial Statements