



# Financial Responsibilities

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# Financial Records

- Smaller Component – Checking Account Only
  - All receipts deposited
  - Approved disbursements withdrawn
  - Surplus funds invested
- Larger Components – More elaborate systems
- Financial Statements

# Internal Control

- Assures that financial errors are prevented or detected quickly – Helps to mitigate fraud risk.
- Add fraud protection to banking services (positive payee, ACH Monitor).
- Ensure those who are accepting credit card payments are PCI Compliant.
- Keep financial records and personal information secure.
- Personnel: bonded/component insured for theft for protection, supervised to prevent errors
- Standardized authorization and recording of transactions

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# Internal Control *continue*

- Segregation of functions: record keeping, check signing, disbursement authorization and depositing funds:
  - Mail opened by someone other than person handling cash receipts
  - Person responsible for cash receipts other than cash deposits
  - Approval of vendor invoices by responsible person
  - All disbursements made by check or electronic payment. Verify payment requests!
  - Checks signed by other than A/P preparer. Require W-9s for vendors.
  - Payroll checks signed by other than payroll preparer
  - Bank statement reconciled vs. signing checks or cash receipts

# Financial Statements

- Balance Sheet
- Statement of income and expenses
- Cash Flow
- Supplemental financial statements
  - Analysis of investments
  - Variance reports

# Business Insurance

- Protects the organization against economic loss
- Basic of insurance:
  - Fidelity insurance against loss from dishonesty
  - Comprehensive general liability insures against damages to persons or property
  - Fire insurance insures from fire, smoke, water, damage
  - Directors and Officers insures against personal damages to the organization's Directors as a result of their actions
  - Others (professional liability, Cyber Security, etc)

# Record Retention

- Permanent – IRS exemption application, determination letter, corporate charter, bylaws, contracts, deeds, leases
- Lifetime – Employee benefits records
- Lifetime – Grant and endowment records
- 7 Years – Bank and investment records
- 7 Years + – Federal 990 and other returns
- Three most recent 990s must be open to public inspection
- 6 Years – State and local tax filings
- 6 Years – Financial records

# Budgeting & Reporting

- Why Budget?
  - Budget provides planning tool
  - Helps to prioritize needs and allocate resources
  - Defines management goals
  - Provides benchmark to evaluate future performance
- Reporting and Independent Auditors
  - Should report financial information to Board to ensure transparency and oversight
  - Books should be reviewed or audited to assure Board of accuracy of financial records



# Nonprofit Tax Issues

What are a Component's tax responsibilities?

- Adhere to exempt purpose – trade associations – 501(c)(6)
  - Taxable activities are permitted, but keep them small
- Be accountable to members
- File all required returns and reports (Federal and state)
  - Form 990 (and 990-T, if required – if UBI present)
  - State tax return (if required)
  - Other state filings: registration, escheat, property taxes, sales & use.
- Keep good books and records
- Don't engage in prohibited activities
- Disclose lobbying percentages on invoice

# Criteria for Tax-Exempt Status

- No part of net earnings benefit one member
- Association of persons with common business interests
- Purpose to promote the common business interests
- Not engaged regularly in business unrelated to purpose
- Activities not confined to services for particular members

# Nonprofit Tax Returns

- Federal Form 990
- Must be filed by ALL exempt organizations.
- Due 5-1/2 months after end of fiscal year; Two 3-month extensions are permitted (filing deadline after extensions is Nov. 15)
- Form 990-N “Postcard return” if gross receipts are <\$50,000
- Form 990-EZ may be filed if gross receipts are <\$200,000 and end-of-year assets are <\$500,000
- Form 990-T must be filed if gross “unrelated business income” (UBI) is more than \$1,000
- Don’t forget to file 990’s for related foundations, if the gross receipts test is met
- Many states also have a tax return that needs filing, especially for unrelated business income.

# Nonprofit Tax Returns *continue*

## Other Taxes and Filings

- Sales and use taxes
  - Associations can't get an exemption
  - Must collect and remit on products sold and sometimes other things.
  - Must pay sales tax to vendors on required items.
- State registrations (mainly for charities only)
- Real and personal property taxes
- Payroll taxes
- Unemployment taxes

# Unrelated Business Income

- Trade or business, regularly carried on, not related to exempt purpose.
- Does not include certain “passive” revenue streams: interest income, royalties, most rents, dividends, capital gains, conventions.
- Typical UBI activities of associations and their chapters:
  - Advertising: “call to action,” quality, comparability
    - Magazine, newsletter, Web banners, job classifieds, online job banks
    - Online member directories, if similar to an ad
  - Mailing Lists
  - “Affinity” programs, if association provides services
  - Rental of building to outside groups

# Lobbying Expense

- Trade associations may lobby, but lobbying expenses are not deductible.
  - This rule applies to Federal and state lobbying efforts.
- Associations either pay a “proxy tax” or pass on nondeductible costs to members
  - Proxy tax is 35% of lobbying expenditures
  - Costs are passed on to members via a notice on dues invoice
- Calculating lobbying expenses isn’t difficult, but “lobbying communication” rules are complex.

**Thank you.**