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Chapter Financial Management Guide

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Chapter Financial Management Guide

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INTRODUCTION

A key position in every ACRP chapter is that of the chapter's treasurer. The Chapter Financial Management Guide is designed as a resource for the treasurer. It provides important information and advice on typical treasurer responsibilities. ACRP chapters can use this guide in several ways:

- As a training tool for a new treasurer
- As a refresher and reference for an existing treasurer
- As a guide for making sure that the position description for the treasurer is complete.

The information in this guide will ensure that no financial management tasks or issues are overlooked, because strong financial management is crucial for the health of the chapter.

Note: While every chapter has a position with financial management responsibilities, not all chapters use the same position title. Two of the most common are Treasurer and Chief Financial Officer. For simplicity and clarity, we will use the title treasurer in this guide.

Duties of the CFO

All chapters, large or small, must maintain accurate financial records, follow solid internal control procedures, be fully informed of current financial performance, and comply with governmental regulations. All collected funds must be deposited promptly, and payments must be made only after proper authorization and approval. A sample chapter treasurer position description is included as "Sample Document 1."

Beyond these "bookkeeping" requirements, however, lies an array of financial concerns for the chapter.

A strong treasurer approaches these concerns by:

- Submitting periodic financial reports in a useful format to chapter leaders, members, and auditors, as required
- Using current and historical information to budget accurately and to identify potential trouble spots in time to make adjustments
- Directing the board's attention to long-term and short-term trends that may affect the chapter's membership and financial position
- Encouraging all chapter leaders to share the responsibility of managing the chapter's finances
- Reviewing current banking, vendor, and investment relationships to ensure the best use of chapter funds
- Keeping safety and liquidity factors in mind when investing chapter assets
- Keeping informed on current federal and state regulations concerning exempt status, tax liability, filing compliance, and postage benefits
- Working closely with the outgoing treasurer and with the successor treasurer to achieve a smooth transition between terms of office
- Maintaining a balance between expenditures that are for the perpetuation and enhancement of the chapter and expenditures that meet members' current needs
- Always remembering that the chapter is custodian of its members' money and must be prudent in managing it

ANALYSIS OF THE CHAPTER'S FINANCIAL CONDITION

The treasurer is the member of the team who manages the assets of the chapter and has the following responsibilities:

- keeps current and accurate financial records
- has a thorough knowledge of ACRP's Chapter Affiliation Standards & Expectations (CASE)
- works with the membership chair, the meeting coordinators, and the other officers to ensure the chapter's financial health

The discussion of the budgeting process, which follows this section, will address some trends and events that could affect revenue and expense projections for the upcoming budget year. In addition, the following factors should be constantly analyzed for their effect on the current and future years' performance:

- trends in membership growth (up or down)
- changes in attendance at monthly meetings
- registration at seminars and workshops
- advertising income and other sources of revenue
- unanticipated expenses
- donated services, either anticipated and not received or received but not anticipated
- unanticipated increases in administrative and other expenses
- cost of carrying non-renewing members
- new business opportunities

The chapter's activities are analyzed for the distinction between the good performers with a high return (both financially and in the members' perception) and the poor performers that use a lot of assets and efforts and have a low perceived worth. A member needs assessment and satisfaction survey will provide answers to most of your questions.

The team recommends courses of action to capitalize on the good performers and to minimize or eliminate the poor ones.

THE FOUNDATION OF A SOUND FINANCIAL MANAGEMENT SYSTEM

The Seven-Step Budgeting Process

The budget is the financial presentation of the chapter's goals and objectives. Members pay chapter dues in exchange for services from the chapter. The budgeting process addresses the financial implications of dues and other revenue received and services provided.

- What does the chapter provide its members?
- How much do these services cost?
- How much revenue comes from dues and how much from other sources?
- What are the administrative costs (expenses such as insurance and software, which are not directly connected with a specific program)?

There are seven steps to the budgeting process:

1. Assess the chapter's current financial position and look at the chapter's goals
2. Identify chapter programs and services
3. Estimate revenue for each program area for the coming year
4. Estimate expenses for each program area for the coming year
5. Identify all the administrative costs of running the chapter
6. Prepare budget worksheets for each program and administrative area
7. Compile all program and administrative budgets into an overall annual chapter budget

"Sample Document 2" and "Sample Document 3" provide examples of a simple and detailed annual budget.

Step One: Assess the chapter's current financial position and look at the chapter's goals

- Where is the chapter now; where is it planning to be?
- Is the chapter building a budget that reflects member needs each year?
- Is the chapter operating on a sound financial basis, or are cash balances dangerously low?
- Is the chapter run like a business?
- Is the chapter following its state and federal financial reporting obligations?
- Were the chapter's financial records reviewed or audited last year?
- Does the chapter have current liability insurance?

Step Two: Identify chapter programs and services

The final chapter budget should encompass all activities for the coming year. The initial step is to conduct an inventory of all current and future chapter programs, services, and activities to ensure they are all included in the annual budget.

In performing this inventory, the treasurer and other officers will ask two key questions:

- When members join the chapter today, what do they get?

- Does the chapter anticipate adding any new products or services in the coming year?

Step Three: Estimate revenue for each program area for the coming year

Here are some questions that should be addressed:

- How much do members pay in dues?
- What trends and events may affect revenue projections?
- Is membership static, increasing (signaling more revenue for the coming year), or decreasing (indicating a downward trend in revenue)? The membership chair and the treasurer should work closely to examine the trends.
- What is the member retention rate?
- What trends appear in the areas of meeting attendance, fees charged, and the timing of collections?
- Are there any innovative programs or services that will bring in additional revenue to the chapter?
- Are there any programs or services that should be discontinued?

Step Four: Estimate expenses for each program area for the coming year

Questions and tips for consideration include:

- How much does it cost the chapter to provide services to members?
- What trends and events may affect expense projections?
- Studying several years of audits and financial reports can help identify the type and size of expenses to expect and can point out cost items that might not come to mind immediately.
- Factor in any increases in postage, telephone, printing costs, etc., which have or which may occur.
- Use the most recent (and presumably highest) costs of recurring items to estimate a full year's expense. For example, if a restaurant charges more per person for monthly luncheon meetings than it did a year ago, the projected annual expense for luncheons would be based on the current charge (plus any anticipated additional increases), and not just on the aggregate of the past 12 months.
- How long does the chapter carry non-renewing members? (Two months? Three months?) What is the rate of non-renewals? The budget must reflect the cost of printing and postage for newsletters and other announcements to non-renewals during their grace period.

Step Five: Identify all the administrative costs of running the chapter

The various officers have budgets for carrying out their responsibilities. There may also be general administrative expenses such as insurance and administrative support. There may be some revenue associated with the administration of the chapter, such as interest income on savings, CDs, money market, or other types of bank accounts. The treasurer is usually responsible for budgeting for administrative expenses and revenue.

Step Six: Prepare budget worksheets for each program and administrative area

Once steps one through five have been completed, officers can prepare a budget worksheet for each program and administrative area. By accepting the budgeting responsibility for a specific program, each officer or chairperson accepts accountability for that program. This process helps establish the strong teamwork approach that characterizes a well-run chapter.

Each worksheet identifies the program, its goal or objective, the activity required to achieve the goal, and all anticipated revenue and expenses.

The budget worksheet shows the months in which revenue will be received and expenses disbursed. In some cases, the timing of revenue and expenses can be predicted quite accurately, but in other cases it is most logical to spread the annual budget equally over 12 months. The information from these worksheets will be incorporated into the total chapter budget.

Step Seven: Compile all program and administrative budgets into an overall annual chapter budget

Using the chapter's projected revenue and projected expenses, create a spreadsheet showing the amount and timing of all the chapter's financial activity:

- How much revenue is anticipated and when will the funds be received?
- How much spending is anticipated and when will the funds be disbursed?
- What is the chapter's anticipated cash position at any particular time?

Perform the following checks to finalize the budget:

- Does every program have a budget?
- Is there a budget for administrative expenses and any related revenue?
- Have you verified the accuracy of revenue, expenses, and net figures on each budget worksheet?
- Do the total revenue, expenses, and net figures on the annual budget include all the information from all the budget worksheets?
- Is the beginning cash balance equal to the sum of the anticipated balances in all bank accounts?
- Have you allowed for any prior year expenses that may not be billed until next year and will therefore use cash in the next year?
- Is there a substantial difference between this year's budget and last year's (either in revenue, expenses, or both)? If programs and activities have not changed greatly, then the budget should be very close to the prior year's figures.

The budget, once approved by the Board of Directors, becomes the fixed base against which financial performance is analyzed during the year.

The approved budget does not change. When variances in revenue and expenses occur during the year, they will be measured against the approved budget.

One of the treasurer's primary responsibilities is to alert the chapter leadership to the financial implications of unanticipated changes in revenue and expenses so those adjustments can be made in a timely manner.

Record Keeping, Control, and Reporting

Accurate, timely, and complete records are the essence of a sound financial system.

The treasurer's responsibilities include keeping all cash, insurance, investments, audit, and other financial records for easy access and for efficient transferability to the successor treasurer.

Under no circumstances are chapter funds ever to be commingled with any member's personal or company account. A separate checking account must be set up to handle chapter funds.

Records Retention

The size of the chapter determines the physical storage needs for the chapter records. Each chapter should keep an inventory of all records and their location. An example of an entry in such an inventory might be "Accounts Payable, 2003 - 2005, off-site storage." The inventory should be updated as part of the transition process and passed on to the successor treasurer. Here is a general guide for retaining records:

Accounts receivable journals	7 years
Bank statements	3 years
Accounts payable journals and checks	7 years
Annual financial statements and audits	Permanently
Tax returns	Permanently
Payroll records	7 years
Organizational documents (charters, bylaws, etc.)	Permanently
Membership records	3 complete years
Supporting documentation (such as paid invoices and cash receipts)	3 complete years
Insurance policies (expired)	3 complete years

**ACRP maintains an electronic archive of chapter organizational documents. Contact your chapter relations manager, Lisa-Marie Gardner, at* lgardner@acrpnet.org *to obtain copies of the archived documents.*

NOTE: If the chapter is in litigation or under investigation by the IRS or state authorities, no records should be discarded until the investigation or litigation is concluded.

The most common types of records that the chapter treasurer prepares are the Accounts Payable (money paid out by the chapter) and Accounts Receivable (money paid to the chapter) journals. Each must be kept current and must summarize cash information monthly.

These records are used to summarize activity by program and service area, and in the preparation of periodic financial reports to the leadership. They are also used in reconciling all bank statements on a monthly basis.

The accounts are usually best managed with appropriate computer software. It can be a simple spreadsheet program or a refined financial management program whichever meets the needs of the chapter. Keep in mind, however, that you will need to be able to transfer all this information to the successor treasurer, who may have different software capabilities and technical skills. The chapter may wish to establish rules and guidelines for use of financial management and tracking software. In any case, it is imperative that paper copies of all monthly journals and reports are passed on to the successor to help ensure a smooth transition.

Accounts Payable and Disbursements

It is important that the chapter establishes approval and authorization procedures for writing checks. The treasurer, who draws the checks, should not have authority to approve expenditures based on his/her signature alone. These control procedures should address:

- What backup documentation (expense reports, bills, etc.) is required?
- What approval is required for each type of expenditure and in each budget area?
- In what circumstances are more than one approval necessary? Usually there are three:
    1. over a certain dollar amount
    2. for items that were not budgeted
    3. when the variance from budget exceeds certain limits
- At what dollar amount are two signatures required on checks?
- How frequently will checks be drawn?

No checks should be drawn without proper authorization and approval, in accordance with the published procedures for cash disbursements.

With the annual transition of officers, the chapter must file new signature cards with the bank. The chapter’s bank service officer can assist with the necessary arrangements.

Cut-off dates for bank statements should be the last day of the month rather than during the month. This eases the reconciliation and auditing processes.

Every check, bank service charge, and other reduction in cash is recorded in the Accounts Payable financial software or spreadsheet. Each entry represents a decrease in cash, with a simultaneous increase in expenses in one or more program or service areas.

Accounts Receivable

Every bank deposit during the year is recorded in the Accounts Receivable financial software or spreadsheet. The total deposit represents an increase in cash. The deposit is simultaneously recorded as revenue in the appropriate program or service area.

Deposits must be made in a timely manner from when the money is received. It is an unacceptable financial management practice to hold funds any longer than three days before depositing them. If the bank’s location is inconvenient to the treasurer, he or she should arrange to conduct banking transactions online or by mail. However, do not mail cash.

Each deposit must have backup information, which the treasurer prepares or consolidates:

- a dated duplicate deposit ticket, listing each check (payer, check number, and amount)
- Check stubs, payment copies of invoices, or other paperwork that will identify the source, amount, and purpose of each payment received
- copy of the check

Statement of Revenue, Expenses, and Changes in Cash Balance

The treasurer reports periodically to the board and other interested parties on the financial condition of the chapter. The reports are as of a certain date (always the end of the month), and reflect all the activity through, but not beyond, that date. The reports should highlight areas in which revenue or expenses vary significantly from budget.

These statements can be as complex as the board desires, with percentage variances, projections, and subsidiary statements by program or service area. At a minimum, the statements should contain the following information:

- Name of the chapter
- Title of the statement ("Statement of Revenue, Expenses, and Changes in Cash Balance")
- Time period covered
- Cash balances at the beginning of the fiscal year
- Revenue (listed by program and service areas)
- Expenses (listed by program and service areas)
- Cash account balances as of the date of the statement

Always, the beginning cash balance plus total revenue received in cash less total expenses paid in cash must equal the ending cash balance. In other words:

(BEGINNING CASH BALANCE) + (TOTAL CASH REVENUE) – (TOTAL CASH EXPENSES) = (ENDING CASH BALANCE)

Having verified the beginning balances from the prior year-end reports, and having used the "Accounts Receivable" and "Accounts Payable" spreadsheets to reconcile the bank accounts, the ending cash balance on the statement will equal the reconciled cash balance on the monthly bank account statements.

Balance Sheet

The balance sheet presents the chapter's assets, liabilities, and fund balance at a specific point in time.

The balance sheet is always presented as of a certain date (unlike the "Statement of Revenue, Expenses, and Changes in Cash Balance," which reflects activity for a certain period).

There are three major divisions: assets, liabilities, and fund balances.

Assets are either current (cash or readily converted into cash, or accounts receivable that are due within one year) or fixed (furniture and equipment, less accumulated depreciation to date).

Liabilities are either current (due to be paid out within the year) or long-term (due to be paid one year or longer in the future).

The ending fund balance is always the fund balance at the beginning of the year plus the net excess of revenue over expenses since the beginning of the year.

Fund balance is simply assets minus liabilities, and reflects the cumulative financial activity of the chapter since its inception.

Total assets always equal the sum of the total liabilities plus the fund balance.

Most chapters use the cash basis of accounting (instead of the accrual basis). Accounting on the cash basis means that the financial statements reflect revenue when it is received (deposited in the bank) and expenses when they are paid (when checks are drawn).

It follows, of course, that the accuracy of the chapter's financial picture depends on collecting and depositing funds immediately and on drawing checks in payment of expenses as soon as expense invoices are received.

Smaller ACRP chapters often have cash as the only asset and no liabilities. In that case, the fund balance at any one time will equal the cash balance. For these chapters with no other assets, the "Statement of Revenue, Expenses, and Changes in Cash Balance" is the only financial statement required, since the ending cash balance is identical to the fund balance.

Some larger chapters may have purchased furniture and equipment (such as desks and computers), or may have money in stocks, bonds, and/or other investment vehicles. For these chapters, a conventional balance sheet should be prepared.

All the reports and supporting records discussed above Accounts Payable journal, Accounts Receivable journal, Statement of Revenue Expenses, Changes in Fund Balance, and Balance Sheet are intricately related. Accurate record keeping is essential to accurate financial reporting.

Cash Management

Cash management covers several areas: deposit and check writing procedures, banking relationships, cash flow, and investments.

Deposit and Check Writing Procedures

Deposit and check writing procedures are addressed above in the sections on "Accounts Receivable" and "Accounts Payable."

Banking Relationships

This area encompasses all the chapter's accounts at banks, savings and loan institutions, and investment houses.

It is advisable to deal directly with the account executive who handles the chapter's account in order to establish a personal relationship with him or her. One of the first transition activities will be to update each account with new signature cards. This is an excellent opportunity for the treasurer to get to know the
banker.

Banks are competitive. If the chapter officers feel that the chapter is not receiving the service it deserves, or that fees are too high or interest too low, then shopping around for better deals, either with the current bank or with other banks, may be advisable. The chapter deserves the best balance of safety, convenience, and economy.

Cash Flow

The treasurer should always be aware of the chapter's current cash situation. If the cash balance is high or low in comparison to the same time last year or to year-end, what has caused the shift?

- Is it due to the timing of dues receipts?
- Has a one-time large bill (such as insurance) just been paid?
- Is there an event to be held soon, for which fees have been received but for which few bills have been paid?

Cash management in the context of watching the flow of funds involves:

- noting the current cash situation
- analyzing the revenue and expenses that are due in the future
- adjusting as necessary

Perhaps there are excess funds to invest for a limited period of time at a higher rate. Perhaps some budgeted expenses need to be postponed until the cash position improves. Perhaps the chapter's cash balance is in danger of getting below an acceptable level, and so arrangements with vendors for time payments (of an insurance policy, for example) may be negotiated.

In any case, the treasurer has the raw data to recommend steps that will most efficiently manage the members' money.

Additional Reporting Procedures

In addition to the financial statements discussed above, the treasurer prepares reports that show:

- variances in revenue and expenses between actual and budgeted
- projected revenue and expense based on year-to-date information
- trends and their long-term effects

Any variances that exceed five percent of projected and budgeted revenue or expense should be brought to the board's attention along with notes explaining the variances.

"Sample Document 4" shows an example of a "Variance Analysis" report, showing budget, year-to-date, and projected revenue and expenses.

At the board's discretion, any financial statements or records can be presented to the members. They may be part of the treasurer's report at membership meetings, published in the chapter newsletter, or presented in another way that is appropriate and convenient for the chapter.

In addition, the year-end "Statement of Revenue, Expenses and Changes in Cash Balance" should be presented to the entire membership as part of the chapter's annual report.

It is also the treasurer's responsibility to prepare state and federal financial reports, as required by law. (See the section on "Federal and State Tax Reporting.")

The Review or Audit Process

What is an Audit/Review?

An audit is a systematic process of objective procedures that are performed with the result being an opinion expressed by the auditor as to the accuracy of a set of financial statements accompanied with a level of assurance of the opinion.

A review is less rigorous than an audit and entails the performance of certain inquiries and procedures that provide the basis for giving limited assurance as to the accuracy of a set of financial statements.

Purpose of an Audit/Review

The audit/review is the examination and verification of the chapter's books and financial records and is concerned with two objectives:

- Verification that established policies, procedures, and internal controls are being followed in the daily operations of the chapter, and
- The auditor's satisfaction that the accounting records and financial statements are accurate and complete.

When to Conduct an Audit/Review

Conducting an annual internal/external review verifies that established policies, procedures, and internal controls are being followed in the daily operations of the chapter. Reviews assure that collected monies, such as members' dues, are accounted for and being used properly. It also confirms that the accounting records and financial statements are accurate and complete. Therefore, this is an important component of the board's fiduciary responsibility.

Note: **ACRP encourages all chapters to do an internal review or external audit. As a suggestion, we recommend that chapters alternate from year to year.*

Reviews and audits should be performed when the year's financial statements are complete. However, if there is any evidence of wrongdoing by the treasurer or by anyone else who has access to the books, then an audit by an outside firm should be performed at the time the wrongdoing is first suspected.

Who Should Conduct Audits/Reviews

The chapter should hire a certified public accountant to conduct independent external audits or reviews.

The annual internal review can be conducted by an internal audit committee, composed of members preferably with financial acumen that examines the books at year-end for completeness and accuracy.

How to Complete the "Audit Program"

A checklist of tasks to be completed during the audit is called the "audit program." It is completed during the audit and becomes a permanent part of the audit documentation.

The auditor(s) examine the financial records, bank statements, budgets, and board minutes to satisfy themselves that chapter procedures are being followed. They will make note of the records they have reviewed, and will make any comments on related procedural matters, as they deem necessary.

Upon completion of the audit, the auditors issue a report expressing an overall opinion on the accuracy of the chapter's financial statements. Should the auditors have any recommendations for adjustments to the record keeping and financial reporting processes, these will typically be expressed in an accompanying letter to management.

An internal review program can be developed with assistance from the auditors. An example of an internal review program for a volunteer audit committee is included as "Sample Document 5."

Other Financial Management Considerations

As custodian of its members' money, the chapter must safeguard its assets in a conservative and fiscally responsible manner. To do so requires long-term as well as short-term planning.

Chapters, large or small, should establish policies for accumulating a reserve fund and for investing available cash.

The reserve and investment policy may be consolidated into one policy. This discussion, however, will deal with them separately.

Reserve Policy

There are three reasons for having a reserve fund:

1. To cover obligations to members. Members pay dues in advance for products and services to be rendered by the chapter over a particular future period. The chapter must ensure that there will be funds to pay for these services.

   In most situations, the cycle of the collection of membership dues is either constant throughout the year or occurs in the same known period (e.g., January and February) from year to year. In either case, the chapter assumes that money will come in to pay for the cost of services.

However, if there is an economic downturn, and membership renewals decline, there must still be available enough money to cover promised services to current members through their membership year. (Of course, the chapter must be constantly aware of trends in membership growth so that if there is a slowdown in the revenue stream, spending adjustments can be made accordingly.)

A chapter may also use the reserve fund to provide indemnification for its officers against risks associated with managing the chapter. (See the section on "Liability and Indemnification.")

2. To allow for shortfalls in revenue and/or unforeseen expenses. Even if membership does not decline, other sources of revenue may drop unpredictably. For example, a chapter may have made unbreakable commitments for meeting space for an upcoming seminar or workshop. If the registration does not materialize, the commitments still must be met, and funds must still be available to cover such payments.

3. To build funds for capital expansion. Computers, appropriate software, and even office space are important assets for many chapters. The size of such an investment may be larger than the budget can allow in a single year, and so the board may wish to earmark a certain amount for a certain number of years toward purchasing the equipment.

Even chapters without a formal reserve policy will have excess funds in a bank or other investment vehicles at various times. The reserve policy identifies the minimum level of these funds.

The reserve policy should also stipulate that a majority of the board must approve any action that would deplete the funds below the established minimum level. Such approval would be carried in the board minutes.

The board should study the chapter's future needs, the "worst case" shortfalls over a multi-year span, and trends from the past several years concerning members and other sources of revenue. It should then decide the target balance in the reserve fund.

The need for establishing a policy to set up and contribute to a reserve fund is clear; the amount that should be set aside for reserves is not so clear.

Several methods for determining the target balance of the reserve funds are:

- As a percent of one year's operating costs. For example, if the annual budget is $50,000 and the target balance is 50 percent of one year's operating costs, then the target balance for the reserve fund would be $25,000. As the budget changes, the target balance changes.

- As a specific dollar amount. For example, if the board feels that $10,000 is an adequate amount to keep in reserves, then $10,000 is the target balance. The reserve may grow to be greater than $10,000, but the excess would be available to return to members in the form of additional services.

- As the amount associated with a specific program or area. For example, the board may decide that the target balance should be equal to the cost of providing workshops and seminars over a two-year period. Again, as these projected costs change, so would the target balance.

There is no one right way to determine the amount of the target balance in the reserve fund. The discussion of methodology above merely sets out several approaches to addressing the issue.

It is imperative that all officers be involved in identifying both the amount of the target balance and the date for achieving that balance. The primary consideration is that money must be available to protect the members' investment in their chapter.

Investment Policy

The investment policy identifies the vehicles in which the chapter can invest its money. Keeping in mind that the chapter is the custodian of its members' money, chapters should take a conservative investment approach, based on the "SLY" policy: Invest in a manner that offers the most reasonable combination of safety, liquidity and yield.

- Safety Investment – in speculative stocks or other ventures should be avoided. Obligations of the federal government are the safest available investment. Many chapters invest in interest-bearing accounts and short-term certificates of deposit at a local bank, particularly for money not set aside as reserve.

- Liquidity – the chapter's cash needs and projected flow of funds should determine liquidity requirements. For example, if membership renewals occur annually at the beginning of the year, then cash will be high in January but low by the first of December. The maturity dates of investments can be staggered so they may be liquidated without penalty.

- The investment policy should consider the balance of the reserve fund (available for longer-term investment), and the cash flow requirements during the year (necessitating readily available cash).

- Yield – investments are made to earn interest on money. The wise investor looks for the safest investments that will yield the highest return, always remembering that cash must be available when needed to meet expenses.

- The investment policy itself should set out the types of vehicles in which the chapter can invest. It should also identify the requirements for investing the reserve fund cash, and should set out which officers can make investments and what level of board approval and reporting is required.

Before formulating a chapter investment policy or investing a significant amount of cash, the treasurer should consult a financial advisor, preferably one who specializes in working with nonprofit organizations. The financial advisor can be helpful in suggesting investment guidelines and identifying investments that will conform to those guidelines.

FEDERAL AND STATE TAX REPORTING

Tax Exempt Status

The 501(c)(3) Designation

The advantages of a 501(c)(3) organization are that federal income taxes do not have to be paid on related business income (unrelated business income is taxable), and contributions made to the organization are tax deductible by the donor.
ACRP and the large majority of its chapters are classified as 501(c)(3) organizations. This designation identifies them as organizations operating for the educational benefit of society.

A 501(c)(3) organization is exempt from federal tax on income related to their exempt purpose (membership dues, seminar fees, educational publication sales, etc.).

Contributions made to 501(c)(3) organizations are considered charitable contributions, and as such are tax deductible by the donor. This offers the organizations a broader base for receiving grants, gifts, and donations.

Be aware, however, that exemption from federal income taxes does not automatically constitute exemption from state and local taxes. Tax regulations vary according to state and locality. If the CFO is unsure of the chapter's state and local tax status, he or she should contact the local and state directors of finance or taxation.

Federal Identification Number

In 2017, ACRP's headquarters in Alexandria, Virginia became the official IRS address for all chapters for which we have requested a Federal Identification Number or which are included in the ACRP Group Exemption (see below).

The importance of using ACRP's address for IRS purposes is that all correspondence from the IRS related to the chapter comes directly to the headquarters office. ACRP then keeps a copy of the correspondence and immediately forwards the original to the current chapter president or treasurer.

Since chapter officers generally serve only one year, and since many chapters do not have permanent offices or post office boxes, this procedure ensures that all correspondence from the IRS will be handled promptly, thus avoiding potential liens and penalties against the chapter.

Contact your chapter relations manager for your chapter's federal identification number.

ACRP Group Exemption

In 1984, ACRP received a group exemption letter (Group) from the IRS. By this letter, subordinate organizations (chapters) can be granted 501(c)(3) status by virtue of their participation in the Group, thereby avoiding the necessity of individually filing for exemptions.

If a chapter's statement of purpose or mission is consistent with ACRP's, and if it requests to be included, it may be made part of the Group. Each ACRP chapter is strongly encouraged to participate in the Group.

ACRP's statement of purpose is:

> We are leading innovation in clinical research workforce development by setting standards for professional competence, and building and validating competence in the workforce.

In order to be included in the Group, a chapter must make its request in writing to ACRP.

ACRP updates the Group records with the IRS on an annual basis in September, adding any chapters that have requested inclusion since the last update. ACRP will ask for and collect this information as part of the annual CASE submission in January of each year.

ACRP maintains a current list of chapters participating under the Group. It includes each subordinate's name, Federal Identification Number, and filing status. These records are updated as new chapters are added to the Group Exemption.

If there are any questions related to inclusion in the Group Exemption, the chapter treasurer should contact the chapter relations manager.

IRS Forms 990 and 990EZ

Being exempt from paying taxes does not equate with being exempt from filing tax returns. IRS Form 990 is the tax return used by nonprofit organizations. It must be submitted by the 15th day of the fifth month following the close of the fiscal year (May 15 for a calendar fiscal year). Penalties for filing late are $20 per day, up to a maximum of $10,000. An automatic three-month extension for filing deadlines may be requested using IRS Form 8868.

Nonprofit organizations, however, do not have to file a formal Form 990 return if gross receipts (i.e., total revenue received during the year) are normally less than $25,000. "Normally" is usually defined by the activity of the prior three years. If receipts in two of the prior three years have been less than $25,000, then no filing is required. However, if gross receipts in only one of the prior three years has been less than $25,000 (regardless of what the current year's outlook is), then the chapter will be required to file.

As of 2008, however, small tax-exempt organizations that previously were not required to file returns are now required to file an annual electronic notice, Form 990-N, "Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ." This filing requirement will apply to tax periods beginning after December 31, 2006, and organizations that do not file the notice will lose their tax-exempt status.

ACRP chapters are under the "general supervision" of ACRP, in conformance with ACRP's mission as a nonprofit tax-exempt educational organization. Beyond that, however, the chapters are autonomous entities. As such, they are responsible for maintaining their records and complying with all applicable federal, state, and local laws and regulations, including tax laws.

All ACRP chapters are required to independently determine whether or not they must file federal and state tax returns, and are responsible for filing them in a timely manner.

Unrelated Business Income Tax (UBIT)

Even though an organization is tax exempt, it still may be liable for tax on its unrelated business income. Unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the performance by the organization of its exempt purpose or function except that the organization needs the profits derived from this activity. Perhaps the most commonly seen unrelated activity is the sales of advertising space in chapter publications.

An exempt organization that has $1,000 or more gross income from an unrelated business must file Form 990-T, Exempt Organization Business Income Tax Return. For additional information, see the Form 990-T instructions.

An activity is an unrelated business (and subject to UBIT) if it meets three requirements:

1. It is a trade or business
2. It is regularly carried on
3. It is not substantially related to the furtherance of the exempt purpose of the organization.

The term “trade or business” generally includes any activity carried on for the production of income from selling goods or performing services. Activities of producing or distributing goods or performing services from which gross income is derived do not lose their identity as trades or businesses merely because they are carried on within a larger framework of other activities that may, or may not, be related to the organization’s exempt purposes.

Business activities of an exempt organization ordinarily are considered “regularly carried on” if they show a frequency and continuity, and are pursued in a manner similar to comparable commercial activities of nonexempt organizations. A general rule of thumb is that an activity that is performed only once per year, such as an annual bake sale, is not regularly carried on.

To determine if a business activity is “substantially related” requires examining the relationship between that activity and the organization’s exempt purpose. A trade or business is related to exempt purposes only when the conduct of the activity is essential to achieving the exempt purposes. That is, the activities that generate the income must contribute importantly to accomplishing the organization’s exempt purposes in order to be substantially related.

There are a number of exclusions and exceptions to unrelated business income. They include: dividends, interest, certain other investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property. In addition, the following activities are specifically excluded from the definition of unrelated trade or business:

- Volunteer Labor – Any trade or business is excluded in which substantially all the work is performed for the organization without compensation. Some fund-raising activities, such as volunteer operated bake sales, may meet this exception.

- Convenience of Members – Any trade or business is excluded that is carried on by an organization described in section 501(c)(3) primarily for the convenience of its members.

- Selling Donated Merchandise – Any trade or business is excluded that consists of selling merchandise, substantially all of which the organization received as gifts or contributions. Many thrift shop operations of exempt organizations would meet this exception.

As a result of these exceptions and exclusions, most chapters do not engage in activities producing unrelated business income to the extent that reporting and paying taxes on them is necessary. If the chapter has questions about such activity, it would be wise to contact an accountant concerning the matter.

For more information, see IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations.

IRS Form 990T

A nonprofit organization with gross UBI of $1,000 or more must file IRS Form 990T (even if net UBI is a loss). The form is due to the IRS on the 15th day of the 5th month after the end of the tax year. An extension is available using Form 8868. ACRP does not file IRS Form 990-T for chapters.

No tax is due if the chapter's UBI is less than $10,000. Chapters with UBI greater than $10,000 will be taxed at the same rate as corporations, and estimated payments are required.

Finally, all expenses related to the UBI can be deducted in calculating the chapter's net taxable income.

State Taxes

Every state has different tax filing and reporting requirements. It is up to the chapter to identify and follow through on these requirements. ACRP does not have information on the rules and regulations for each state and jurisdiction.

State Sales Tax

Payment

Generally, organizations are required to pay state sales tax on all purchases of taxable merchandise in that state. However, many states grant exemptions to charitable organizations. This exemption is generally not automatic; you must apply for it.

If exemption is granted by your state, then the chapter will receive an exemption certificate that can be presented to vendors when making purchases. The vendor will then not charge tax on the purchase.

Please note that this exemption certificate provides only an exemption from paying sales tax–not from collecting it on merchandise sold by the chapter.

Collection

Most states require all organizations, including charities, to collect sales tax on sales of merchandise, including donated merchandise. Some states exclude certain merchandise from sales tax (such as certain educational publications). This varies greatly from state to state.

All chapters that sell merchandise must register with their state to collect sales tax. The chapter then remits the tax it has collected with some form of sales tax reporting form, generally on a monthly or quarterly basis.

Out-of-state mail order sales are exempted from sales tax at this time.

For information on either payment or collection of sales tax in a particular state, the state department of taxation or revenue should be able to refer you to its sales tax office.

Payroll Taxes

If a chapter employs any person on a regular, continuous basis, it may be liable for withholding and reporting payroll taxes.

IRS Circular E, available from a local IRS office or on the web, gives complete instructions on how to determine if you are an employer, and what procedures and forms to follow for reporting wages and withholding federal taxes.

The Department of Taxation in your state will be able to provide a similar publication for state wages.

Contractors and Consultants

Unincorporated contractors and consultants who are paid $600 or more in a calendar year must be issued a Form 1099 by January 31st of the following year. Please refer to www.irs.gov for additional filing dates and requirements for Form 1099.

LIABILITY AND INDEMNIFICATION

Prudent fiscal management of a chapter dictates that the chapter and its officers and directors be insured both against potential litigation and against losses from theft and damage. This is a complicated area with wide variation in state laws. This section provides some general information that should apply to all ACRP chapters.

Volunteer Protection Act of 1997

The Volunteer Protection Act passed by the United States Congress in 1997 relieves a volunteer of a nonprofit organization of liability for harm caused by an act or omission if:

- the volunteer was acting within the scope of his or her volunteer responsibilities
- if required, the volunteer was properly licensed or certified to practice in the state where the harm occurred
- harm was not caused by willful or criminal misconduct, gross negligence, reckless misconduct, or flagrant indifference to the rights or safety of the person harmed by the volunteer
- harm was not caused by the volunteer's operation of a motor vehicle, vessel, aircraft, and so forth, for which the state requires a license
- harm was not caused by a volunteer's misconduct that constitutes a crime of violence, constitutes a hate crime, involves a sexual offense, or violates civil rights laws, or that occurred when the volunteer was under the influence of intoxicating alcohol or any drug.

The Act preempts inconsistent state laws, except when those laws provide additional protection. Most experts say this Act is a good first step, but that it does not go far enough in eliminating the myriad of conditions and exceptions regarding volunteer liability.

Chapter officers should be aware of certain things that the Volunteer Protection Act does not do:

- it does not protect the organization itself from liability for its acts or acts of its volunteers.
- it does not protect the volunteer from being sued by the organization itself.
- it does not eliminate the need for general liability and director and officer ("D&O") insurance policies.

General Liability Insurance

The importance of being adequately insured cannot be overstated. Insurance offers protection against damage, accidents, and lawsuits.

Each chapter must obtain general liability insurance for itself. ACRP does not provide this coverage.

The types of needed coverage include such areas as:

- comprehensive general liability
- host liquor liability
- non-owned and hired auto

- others that may be specific to the chapter's needs

Since insurance regulations vary from location to location, each chapter needs to determine what coverage will afford it the most protection within its jurisdiction. When choosing an insurance policy, consider the following criteria:

- types of coverage needed (as indicated above)
- applicable state and local laws
- number of chapter members
- size of events to be covered

Directors and Officers Liability Insurance (D&O)

General liability insurance focuses on property damage and bodily injury. In contrast, a D&O policy insures against the "wrongful acts" of the organization, its directors, officers, employees, and volunteers (depending upon the definition of "Insured"). In general, this means the actual or alleged acts or omissions, including breaches of duty, that the directors, officers or other insureds may perform.

ACRP chapters operate autonomously and only under the "general supervision" of ACRP. Because of this loose relationship, ACRP is not responsible for the debts of the chapters and cannot be responsible for the indemnification of chapter directors and officers.

Chapter officers should address the question of how they wish to secure themselves against the risks associated with managing the chapter. If indemnification is warranted, it may be provided through insurance, through the reserve funds, or through current operating income.

The chapter's insurance agent, counsel, and accountant are sources of advice on this matter.

Event Cancellation Insurance

If the chapter relies substantially on income from an annual meeting or other meetings, it should consider the purchase of an event cancellation policy. This type of policy protects against a wide range of circumstances that could result in a meeting having to be cancelled with a subsequent loss of revenue.

Other Insurance

- auto – if the chapter owns a vehicle, a commercial auto policy should be in effect.
- travel/accident – if chapter leaders routinely travel on chapter business, this coverage may be desirable.
- Fiduciary – if the chapter has employees and maintains a retirement plan, this coverage will protect the officers responsible for custody of plan assets.
- Prime – protects against loss from theft by officers and employees of the chapter.

Incorporation

Incorporation is highly recommended, because it helps to protect board members from liability arising from acts of the organization or its officers, board, or staff. Maximum liability of an incorporated organization is generally limited to the assets of the association. Statutory regulations governing unincorporated associations are fragmentary and incomplete. Thus, their legal status is less clear.

The traditional purpose of incorporation is to shelter the "owners" from personal liability. Corporate status allows an entity to be considered a "person" under the law, and to sue and be sued in its corporate name, thereby sheltering its officers against liability.

Neither federal laws nor ACRP regulations require chapters to incorporate. State or local laws, however, may require incorporation. That issue is beyond the scope of this toolkit. Local legal counsel should be sought concerning if, how, and in what form a chapter should incorporate.

In deciding whether or not to incorporate, the chapter should consider state and local regulations, liability factors, vendor relationships, legal fees, and administrative burdens associated with incorporating.

TRANSITION EFFECTIVENESS

A treasurer's term of office is effectively about six months longer than the actual term. This is because the treasurer is involved in the chapter's financial management from the time of election (usually three months before taking office) through the final closing of the books (up to three months after the end of the term).

The current treasurer should meet with the newly elected one to review the following:

- budget for the current and upcoming year
- prior year-end statements, the audit report and worksheets, and all monthly and quarterly statements and analyses for the current year
- location of chapter records, the inventory system, and the record retention policy
- location of all bank accounts and investment vehicles
- treasurer's job description and any additional duties or responsibilities expected from the office beyond the job description
- elements of CASE the treasurer is responsible for or for which the treasurer is involved
- reserve, investment, and other policies as they relate to the treasurer's duties
- any computer software and programs used for financial management
- transfer of current records to the new treasurer
- year-end reports (which the outgoing treasurer will prepare) and the year-end audit or review
- long-term view of the chapter, covering trends, occurrences, planning for the future beyond the current term of office, and visions of the future.
- availability of the outgoing CFO to be a resource to the incoming CFO as his or her term of office begins.

The treasurer – incoming, outgoing, or continuing – is part of a complete transition team. All officers and chairs share in the dynamic process of carrying the chapter successfully from one set of leaders to the next, and from one year into the future.

APPENDIX

Sample Document 1: Chapter Treasurer Position Description

Sample Chapter Leader Position Description: TREASURER

Position Summary: Act as financial officer and advisor to chapter board of directors. File appropriate forms and information with IRS.

Time Commitment: One year

Estimated Time Requirements per month:

- Board meetings: 1 hour plus travel time
- Monthly chapter meetings: 2 hours plus travel time
- Communicating with global ACRP and fellow leaders: 2-4 hours
- Record keeping and financial book upkeep: 2 hours

Responsibilities:

- Fulfill the role of financial officer and advisor
- The treasurer, as an elected officer of the chapter, is a responsible member of the chapter's board of directors and must take part in discussion and action on all business of the chapter. As financial advisor of the chapter, the treasurer must be in a position to assess the financial implications of proposed actions by the board of directors and inform the committee prior to final decisions being made. Also, the treasurer must observe the financial direction of the chapter, recognize possible financial problems, and bring such problems to the attention of the board of directors for action.
- The treasurer shall receive, hold, and safeguard in the capacity of trustee and financial agent, all funds for the chapter.
- The treasurer shall disburse such funds only for normal and usual uses unless the chapter's board of directors shall otherwise direct.
- Participate in the development and implementation of short-term and long-term strategic planning for the chapter.
- Represent the chapter in the clinical research community.
- Attend all monthly membership and board of director's meetings.

Requirements:

- Reports all income and expenses to the board on a regular basis
- Reports on financial status of chapter each January at membership meeting and each month at board meetings
- Attends and participates in all monthly board meetings and chapter programs
- Participates in other chapter events, committee meetings, and conferences as available
- Represents chapter professionally and ethically in all business functions/organizational activities
- Time available to fully participate in chapter and board meetings, and represent the chapter regionally and nationally
- Member of ACRP and chapter

Sample Document 2: Simple Annual Budget

Sample of Simple Budget

Revenues	**Current Year Budget (2018)**	**Past Year Budget (2017)**	**Past Year Actual (2016)**	**Past Year Actual (2015)**
Dues	$10,000	$9,975	$8,900	$7,261
Meetings and events	$12,000	$11,290	$10,434	$10,580
Royalties from endorsement	$1,200	$1,292	$956	$300
Advertising	$500	$489	$384	$292
Total Projected Revenues	$13,700	(SUM)	(SUM)	(SUM)
Expenses				
Meetings and events	$8,000	$7,564	$8,100	$6,987
Office expenses including supplies, telephone, stationary, copies, and postage	$200	$189	$587	$975
Accounting expense	$100		$156	$176
Legal expense				
Website				
Insurance				
Miscellaneous				
Total Projected Expenses	(SUM)	(SUM)	(SUM)	(SUM)
Net Profit (Revenues minus Expense)	(SUM)	(SUM)	(SUM)	(SUM)

Sample Document 3: Detailed Annual Budget

Annual XXX Chapter Budget

PROGRAM REVENUE	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Membership	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Newsletter			100			100				100		100	400
Symposium										5,000			5,000
Total Revenue	500	500	600	500	500	600	500	500	500	5,600	500	600	11,400
FUNCTIONAL EXPENSES													
Contracted Services			150			150				150		150	600
Postage	25	25	100	25	25	100	25	25	25	100	25	100	600
Supplies	50	50	50	50	50	50	50	50	50	50	50	50	600
Miscellaneous Expense	15	15	15	15	15	15	15	15	15	15	15	15	180
Printing/Production	100		100		100		100		100	750		100	1,350
Accounting Fees			500										500
Legal						500						500	1,000
Insurance	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Bank Fees	30	30	30	30	30	30	30	30	30	30	30	30	360
Meals & Breaks			100			100			100	1,500		100	1,900
Speaker Exp. & Fees			50			50			50	1,000		50	1,200
AV Costs			50			50			50	500		50	700
Travel			50			50			50	250		50	450
Total Expenses	320	220	1,295	220	320	1,195	320	220	570	4,445	220	1,295	10,640
Net Income	180	280	(695)	280	180	(595)	180	280	(70)	1,155	280	(695)	760

Sample Document 4: Budget Variance Report

Budget Variance Report
Chapter Fall Symposium
For the Nine Months Ending September 30, 20XX

	- - - Year to Date - - -			Annual	- Year End Projection -	
	Actual	Budget	Variance	Budget	Actual	Variance
INCOME						
Registration	$ 5,250	$ 5,000	$ 250	$ 5,000	$ 5,250	$ 500
EXPENSES						
Awards/Recognition	$ 271	$ 300	$ 29	$ 300	$ 325	$ (25)
Speakers	$ 2,420	$ 2,500	$ 80	$ 2,500	$ 2,620	$ (120)
Meals & Breaks	$ 857	$ 900	$ 43	$ 900	$ 857	$ 43
Supplies	$ 64	$ 100	$ 36	$ 100	$ 64	$ 36
Total Expenses	$ 3,612	$ 3,800	$ 188	$ 3,800	$ 3,866	$ (66)
Net Income	$ 1,638	$ 1,200	$ 62	$ 1,200	$ 1,384	$ 566

Sample Document 5: Internal Review Program

INTERNAL REVIEW PROGRAM
Year Ended December 31, 20__

Note: The following procedures represent typical procedures, and do not necessarily include all possible review procedures.

- Maintains Cash Receipts Journal
- Maintains Cash Disbursements Journal.
- Prepares Statements of Revenue, Expenses, and Changes in Fund Balance for distribution to the Board of Directors on a monthly basis and to the general membership as directed by the Board.
- Maintains bank accounts as follow:

Account Number	Bank	Purpose	Signatories
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- Reconciles all bank accounts on a monthly basis. Verifies reconciliation to Cash Receipts and Cash Disbursements Journal and to the Statements of Revenue, Expenses, and Changes in Fund Balance.
- Prepares (each quarter) variance analyses of actual versus budgeted revenue and expense.
- Prepares annual budget in coordination with officers and committee chairs; monitors the budget throughout the year.
- Ensures that the chapter's reserve and investment policies are being adhered to.
- Prepares year-end statements for board, membership, and auditors and coordinates the annual audits.
- Complies with applicable federal, state, and local regulations and files reports as required.
- Maintains up-to-date insurance policies.
- Oversees retention of chapter records.
- Coordinates periodic dues and registration reports with the Membership Chair and Conference Chair as applicable.
- Coordinates transition activities with preceding and successor Treasurers.

Review Steps

1. Obtain copies of monthly, quarterly, and annual financial statements from Treasurer
   Observations:
   Date___________ Reviewer's Signature___________

2. Randomly select two monthly financial statements and tie amounts to sub-totals in cash receipts and cash disbursements journals
   Observations:
   Date___________ Reviewer's Signature___________

3. Test arithmetic accuracy of financial statements, cash receipts, and cash disbursement journals selected in Step 2 above.
   Observations:
   Date___________ Reviewer's Signature___________

4. Review bank reconciliation's to determine compliance with established procedures, arithmetic accuracy, and tie-in with cash receipts and cash disbursements journals.
   Observations:
   Date___________ Reviewer's Signature___________

5. Review variance analyses for compliance with established procedures.
   Observations:
   Date___________ Reviewer's Signature___________

6. Review financial reports made to board and to the general membership for compliance with established procedures.
   Observations:
   Date___________ Reviewer's Signature___________

7. Review changes in investment and reserve funds, and test for compliance with established procedures and for board approval as necessary.
   Observations:
   Date___________ Reviewer's Signature___________

8. Test membership rosters against dues collected.
   Observations:
   Date_________ Reviewer's Signature__________

9. Test insurance policies to ascertain coverage and expiration dates.
   Observations:
   Date_________ Reviewer's Signature__________

10. Review federal and state reports for adherence to applicable regulations.
    Observations:
    Date_________ Reviewer's Signature__________

11. Through discussion with the Treasurer, Membership Chair, and other officers, determine the following:
    - General financial condition of the Chapter
    - Significant trends in membership dues and in other areas of revenue and expense.

    Observations:
    Date__________ Reviewer's Signature________

12. Determine what, if any, steps are being taken or are contemplated in view of any negative forces affecting the financial health of the chapter.

    Observations:
    Date__________ Reviewer's Signature________

13. Prepare an overall report covering the results of the review and pointing out strengths and weaknesses in the financial management of the chapter.

    Observations:
    Date__________ Reviewer's Signature_______