

# **2008 Treasurer's Reference**

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# Introduction

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The component treasurer is an integral member of the management team in the American Physical Therapy Association's (APTA's) components. As the financial resource for the component, this *Component Handbook: Treasurer's Reference* was developed to assist you with your responsibilities. It is not the only tool available to you; others include Component Leadership & Financial Development at Combined Sections Meeting; the *Component Bulletin E-mail*, which highlights financial issues of interest and concern; and periodic mailings from APTA headquarters to keep you abreast of topical issues facing the Association. Use all these tools and others as you function in your important volunteer role.

In your role as component treasurer, you are more than a “bean counter” or bookkeeper; you are the financial analyst or the “honest broker.” It is your responsibility to help the Board of Directors understand the fiscal impact of their decisions. As ideas are presented and programs are evaluated, review all proposals making sure relevant revenue and cost data are used, weigh alternatives, make suggestions, and provide recommendations to your leaders. Be positive and provide options. Taking the “if it’s not in the budget, it can’t be done” approach in your analyst role will lose you the support of the leadership team. Remember, it’s not your budget or your money, but your review, analysis and recommendations are key to the process.

The *Treasurer's Reference* covers a myriad of topics regarding accounting, tax, audit/peer review, insurance, and internal control issues. Although the manual does not go into great detail on these subjects, it will familiarize you with essential information for handling component financial record-keeping, filing tax returns, and complying with APTA reporting requirements. It should serve as an excellent reference tool for you in your elected position, as well as to component executive staff and other leaders.

One of my primary responsibilities as APTA Treasurer is to support you in your important role. Please do not hesitate to contact me with questions, comments or recommendations. The APTA Finance and Accounting department's staff and the Chief Operating Officer are also available to you as resources. We welcome any suggestions on how to improve this manual to assist you in your volunteer role as component treasurer.

Best wishes and continued success.

Tim Lyons, PT  
APTA Treasurer

# What Every Treasurer Needs to Know

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## **Employer Identification Number (EIN)**

Every component has a nine-digit employer identification number, also referred to as a tax identification number or federal identification number. You should have this number available to provide to vendors and others who might ask for it. Be aware that having an EIN does not mean your component is exempt from paying income taxes; this is a common misconception. Certain sources of revenue may be taxable on a federal level. State income tax laws vary; you should consult with a tax advisor.

## **Federal Tax Returns**

Your component may have to file a federal tax return even if it has tax-exemption recognition by the Internal Revenue Service (IRS). See information on filing taxes for more details.

## **Independent Contractors**

If your component uses independent contractors, be aware that the IRS is monitoring this area closely. See information on independent contractors for more details.

## **Reports Due Annually**

APTA Board policy requires each component to annually submit a copy of the previous year's financial statements, IRS tax returns, and an audit or peer review report. These reports are due to APTA no later than May 31 or 5 months after the close of the component's fiscal year. Submit these reports directly to APTA's Finance Department.

Lobbying estimates for the following year are due to the Finance Department no later than July 15.

## **Membership Dues**

Membership dues are transmitted monthly, generally between the 20th and 25th of each month, to all chapters and sections through the Automated Clearinghouse (ACH) System. **It takes 1 to 2 business days after the transmittal date for the funds to reach your bank account.** The Accounting Department sends out a monthly report that lists the member names, addresses, and dues amount for payments included in the transmittal. If you have changes to your bank account, immediately notify Jennifer Abbou, Director of Finance, at 800/999-2782, ext 3132.

# Business Accounts

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## Checking Accounts

A checking account (interest-bearing, if possible) should be established in the component's name. The component must have its own employer identification number to establish an account. Never use the social security number of the treasurer or any other individual to open this account. Authorized check signers may vary for each component. For smaller components without a Component Executive, the signer may be the treasurer. For larger components, the signer should be the Component Executive.

Note that the Federal Deposit Insurance Corporation (FDIC) only insures \$100,000 per taxpayer identification number, per institution, not per account. Therefore, APTA does not advise investing more than \$100,000 per institution. The Federal Savings and Loan Insurance Corporation (FSLIC) no longer exists; all savings and loans are now insured by the FDIC with the same coverage as banks.

Consider these checking account suggestions:

- ▼ The component's money should never be kept in a personal checking account. This constitutes “commingling” of funds, and could result in legal or tax problems for the organization.
- ▼ All incoming checks should be restrictively endorsed by someone who does *not* prepare deposits or reconcile the bank account.
- ▼ All incoming checks should be recorded and deposited on a timely basis after they are endorsed. Retain all deposit slips.
- ▼ Reconcile the checking account each month on a timely basis (within 30 days), and notify your bank immediately of potential fraud.
- ▼ For internal control purposes, check signers and check preparers should not reconcile the checking account. Limit the number of persons with check-signing authority.
- ▼ Have the bank statements opened and reviewed by someone in the organization other than the check preparer. Review the cleared checks for reasonableness and appropriateness. This is an important internal control provision.
- ▼ A good internal control measure is to require *two* signatures on checks over a certain dollar amount, such as \$1,000 (APTA's threshold is at the “more than \$5,000” level), provided neither person reconciles the checking account. Have new signature cards completed for all component bank accounts in which new check-signers are designated.

- ▼ When preparing checks manually, record all disbursements, and have an appropriate approval process in place before payment is made. All requests for checks should have supporting documentation attached, such as an invoice or letter.
- ▼ Keep blank-check stock locked.
- ▼ Blank computer checks should contain a control number. A log of control numbers along with the account associated with every check used should be maintained. If you use an automated system to print and issue checks, adequate precautions must be instituted and maintained to ensure that all check stock, including voided checks, is accounted for and that every check in each case is consecutively numbered. No one with check signing authority should have access to blank checks.

Chapters should monitor oversight of district funds and accounting, to include tax requirements that need to be accounted for in the component's IRS filing.

# Investments and Reserves

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## Investments

Money market accounts and certificates of deposit have been the traditional investment options for most components. Unfortunately, these options have not kept up with mutual fund returns, which provide a real (above inflation) rate of return. Mutual funds provide greater investment returns, which can be achieved with as little as a \$1,000 to \$2,000 investment.

Mutual funds are a way to invest in stocks with only moderate risk. Mutual funds are created by investment companies that buy stocks and bonds from many corporations, creating a diversified portfolio. Because the funds are unlikely to be affected by fluctuations of a single company or industry in the economy, they are safer than investing in individual stocks. The yields in a mutual fund will not be as high as yields from the stock and bond markets because they involve less risk.

APTA employs an investment consultant who is available to provide overall guidelines to component leaders. Contact APTA's Director of Finance at 800/999-2782, ext 3132, if you need information on this benefit.

APTA's investment consultant can provide a list of recommended mutual funds with a proven track record. This consultant also provides APTA's Finance and Audit Committee with periodic updates that are passed along to the components. This list contains just a few of the thousands of mutual funds available; however, these funds fit the category most suited for investing for our type of association. For a copy of the most recent funds available, call Jennifer Abbou at ext. 3132, or Chuck Martin at ext. 3130.

Each component is encouraged to adopt a written investment policy. APTA has prepared a proposed Component Model Investment Policy (Appendix 1) in consultation with staff, APTA's investment consultant, and the Finance and Audit Committee. The model policy provides a guide for components to use when establishing a written investment policy. Although it has been greatly simplified from APTA's investment policy, it should provide an appropriate template to meet most component needs. You can adapt the policy based on the specifics of your component, its needs, and its finances. If necessary, consult with an investment advisor before making investment decisions.

## Reserves

Establishing reserves is essential for any organization and represents sound financial management. Reserves are maintained for various reasons. An association should have sustaining reserves to ensure fulfillment of obligations to its members and to offset the effects of an operating reversal until expenditures can be adjusted. Reserves provide management with time to adjust to the unexpected expenses, such as legal liability suits, downturns in the economy, loss of member dues, or emergencies. According to a recent American Society of

Association Executives (ASAE) survey of more than 2,000 associations, the average amount of reserves is approximately 50% of the association's annual operating revenue. The average *goal* that associations set to maintain in reserves is 56% of revenue. APTA's Reserve Policy, as adopted by the Board of Directors, states:

Investments Held for Reserve shall include the assets identified as Reserve Investments, the total of which is the APTA Reserve Fund Balance. The goals for the total of the assets in the Investments Held For Reserve shall be 40% to 55% of the revenue budget of any given year.

There are no right or wrong answers to the questions of definition or adequacy of reserves; it will depend on the needs and circumstances of each component. Reserves should not be used to fund normal operating expenses. They may either be restricted for a special purpose or unrestricted. Most associations, including APTA, include only liquid assets in their reserve figure. Liquid assets include cash, investments, and other assets that are easily convertible into cash. Reserves do not include inventory or fixed assets, such as buildings, equipment, and furniture, because they cannot be easily converted into cash.

# Record Keeping

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For all expenditures, the use of check requests is recommended. Check requests (Appendix 2) should show the date the payment is requested, the purpose and amount of the check, the check number, who it will be issued to, and the date paid. The check request should be signed by the appropriate officer authorized to approve payments before the check is issued. Supporting material, such as invoices or letters, should be attached to every check request, and then filed after issuance of the check. Separate files should be kept for each vendor.

All expenditures and deposits should be recorded accurately, classified by either an account name or number. Complete all check stubs with date, payable to information, and amount. Mark or stamp all invoices “Paid” to avoid duplication of payment.

## **Cash Versus Accrual Method of Accounting**

Components may use either cash or accrual accounting procedures depending on the results desired. When budgets are prepared and the results are measured by the increases or decreases in cash, then accounting on a cash basis is adequate. If results are measured by matching income and related expenses in the same year, then the accrual basis of accounting is recommended. This is true regardless of the dollar amount involved. Generally the larger the dollar amount involved, the better it is to use the accrual method, because it will more accurately reflect the true financial position and financial results of an organization.

The cash method of accounting recognizes income and expenses when cash physically flows. Income and expenses are recorded when cash is received and disbursed. The cash method is often used because of its simplicity, which is why many components use it. The accrual method of accounting recognizes income when it is earned and expenses when the obligation or liability has occurred, regardless of when the cash physically flows. These two things do not necessarily happen at the time the cash flows. The accrual method is typically used by APTA and larger components. It may require a skilled bookkeeper or accountant. Examples of the cash and accrual methods follow:

### *Example 1: Expenses*

Custodial services are performed in your office in December 2006. Payment is made in January 2007.

#### *Cash Method*

|           |  |
|-----------|--|
| December: | Nothing to be recorded.                          |
| January:  | Issue check and record increase to rent expense. |

#### *Accrual Method*

|           |   |
|-----------|---|
| December: | Record increase to rent expense and increase to accounts payable because liability for services occurred in December. |
| January:  | Issue check and record decrease to accounts payable.  |

*Example 2: Income*

You receive January 2007 dues payments from members in December 2006.

*Cash Method*

December: Record increase to income and increase to cash.  
January: Nothing to be recorded.

*Accrual Method*

December: Record increase to deferred (unearned) income and increase to cash because income is not earned until January  
January: Record decrease to deferred (unearned) income and increase to dues income

**Summary**

There are two entries when using the accrual method, whereas there is only one entry using the cash method. The cash method does not use accounts payable or receivable, prepaid expenses, or deferred (unearned) income. (Refer to Appendix 3 for a glossary of common accounting terms.)

**Records Retention**

Because an association is a legal entity whose history is defined by the documents in its files, a haphazard system of document disposal can easily result in legal difficulties for the component.

APTA's Record Retention Schedule (Appendix 4) was provided by APTA's auditing firm. The schedule is to be used only as a guide. It pertains to office and administrative records, not patient records. When using the schedule, if a document falls into duplicate categories, use the category with the longer retention period.

**General Files**

Components should annually review general files that contain business correspondence, internal memos, project data, and other information. The organization should use good business judgment when determining how long to retain these files. If a file has had no activity for a 3 year period, discard it. Documents that should be kept for a minimal period of time include informal notes, memos, drafts, and internal informal correspondence of staff members. Should the association become involved in an investigation or litigation, these records could be misinterpreted. Once the association develops a record-retention policy, it should put this policy in writing, circulate it to all employees, and make sure the CEO monitors the policy to ensure compliance.

**Computerization**

Computers and accounting software packages make the accounting process much easier for the component treasurer. It is important that the component selects a package that will meet its needs. There are many small-business accounting software packages available, so it is important to first research the various options. The Internet and local software retailers can serve as valuable resources for your research. There are also publications available which rate different

software packages. These publications will compare the features of similar products and make a recommendation.

Some popular accounting packages are:

*Quicken* provides one of the easiest ways to organize basic business finances all in one place. Features include invoicing, accounts receivable, accounts payable, reports and graphs, and online banking. It is available for approximately \$90.

*QuickBooks*, one of the most popular small-business accounting packages, offers the same features as Quicken, plus online direct deposit, online payroll tax service, payroll, audit trail, customer and vendor tracking, and statements and finance charges. The cost of a single-user version is about \$220.

# Financial Statements

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The two most commonly used financial statements are the Statement of Income and Expenses and the Statement of Financial Position (Appendix 5). All components with a December 31 year-end, must submit copies of these statements annually to APTA by May 31, or 5 months after the end of the fiscal year if they do not have a December 31 year-end.

## **Statement of Financial Position**

A Statement of Financial Position (formerly called the Balance Sheet) shows the financial position of a business as of a specific date, usually the last day of a month or a year. The assets must equal the total of liabilities, restricted funds, and general fund balance. The statement helps to measure the financial stability of an entity. It measures what is owned by the business (assets), the debts owed to third parties (liabilities), the amounts restricted for specific uses other than everyday use (restricted funds), and the entity's ownership rights to the assets (general fund balance).

## **Statement of Income and Expenses**

The Statement of Income and Expenses (formerly called the Income Statement) also may be referred to as a profit and loss statement, a revenue and expense statement, or a statement of activities. It is a summary of the revenue and the expenses of a business for a specific period of time (e.g., a year or a month). It measures the financial results of activities for that specific period of time. This statement often includes a comparison between budgeted and actual numbers, so that readers can evaluate the year-to-date financial performance.

## **Financial Reporting**

Component leaders should share component financial performance with members on a regular basis. Financial reporting can be accomplished using many media options like a newsletter, Web site, magazine, or a separate report. Consider using bar graphs, pie charts, or other visual aid to convey the data in an understandable manner. Requests from members to more detailed financial information should be acted upon in an open and expeditious manner.

Treasurers should report quarterly on financial performance to the Board of Directors using a level of detail that satisfies the fiduciary requirements of the Board. This requirement has become more important due to the emphasis on governance and fiduciary responsibilities by those serving in volunteer leader positions.

# Travel and Meal Reimbursement

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The following travel and meal reimbursement policy is currently followed by APTA. Components do not have to follow these exact guidelines when reimbursing their members; however, these guidelines are suggested because they fall within the permitted IRS limitations (refer to Appendix 6 for a copy of APTA's travel reimbursement expense reimbursement form). The policy is as follows:

- ▼ Travel mileage reimbursement follows the current IRS rate. This rate typically changes on an annual basis. Current rates can be found on [www.irs.gov](http://www.irs.gov).
- ▼ So that the amount of travel and meal reimbursement is not considered taxable income to the recipient, APTA will:
  - ▼ Continue to reimburse lodging expenses on an actual basis, provided that the amount is reasonable and with receipts attached
  - ▼ Reimburse for meals as follows:  
*For travel to all locations:*
    - A. Without substantiation (no receipts).....\$36 per day
    - B. With substantiation (with receipts).....\$65 per day

Reductions will be made for meals provided by APTA as follows:

|                         |                    |
|-------------------------|--------------------|
| Breakfast provided..... | Reduce by \$ 8.00  |
| Lunch provided.....     | Reduce by \$ 10.00 |
| Dinner provided.....    | Reduce by \$18.00  |

For example, if lunch were provided and expenses were not substantiated by receipts, the amount of reimbursement would be limited to \$26.00; if substantiated with receipts totaling \$65, and lunch was provided, reimbursement would be limited to \$55.00. This policy allows for reimbursement up to a certain per diem amount rather than an amount by meal. For example, a member can be reimbursed up to \$65 per day (with receipts), doing away with the restriction on specific meals. Any meals provided by the Association will be deducted from reimbursement.

# Taxes

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## **Employer Identification Number**

Each component has a nine-digit employer identification number (EIN), also referred to as a federal identification number or tax identification number. This number is used for filing income tax returns, opening bank and investment accounts, and filing payroll tax returns. This number is not a tax-exemption number and has no relevance to being recognized as tax exempt by the IRS.

## **Tax Exemption**

Each component is responsible for applying for its own federal tax-exempt recognition. This is not a legal requirement; however, APTA does require its components to obtain federal tax-exemption recognition. The IRS does not make the decision as to whether a component is tax exempt; it is the nature of the activities that determines tax exemption. The application to the IRS is for recognition of exemption.

A 501(c)(6) is a nonprofit organization that is a business league, chamber of commerce, trade association, or professional society. APTA and most of its components are 501(c)(6) organizations. A 501(c)(3) is a nonprofit organization that is organized and operated exclusively for educational, charitable, religious, or scientific purposes. A 501(c)(6) is permitted to lobby but a 501(c)(3) is not. Contributions to a 501(c)(3) are tax deductible by individual taxpayers, but contributions to a 501(c)(6) are not. Contributions to Political Action Committees (PACs) are not tax deductible.

*NOTE: Federal tax exemption does not automatically mean state tax exemption. Tax-exemption rules vary from state to state. Consult a local accounting firm regarding your state's exemption rules.*

## **Return of Organization Exempt From Income Tax (Forms 990 and 990EZ)**

If a component has achieved tax-exempt status, it should file either Form 990 or Form 990EZ, whether or not it is incorporated. If the component has gross receipts of more than \$25,000, file Form 990. You may file Form 990EZ if gross receipts are less than \$100,000 and total assets are less than \$250,000 at the end of the year. The same rules apply to a political organization exempt under IRC Sec. 527. File either Form 990 or Form 990EZ by the 15th day of the fifth month after your tax year ends. File an "Application for Extension of Time to File An Exempt Organization Return," Form 8868, by May 15 or the 15<sup>th</sup> day of the 5<sup>th</sup> month after your year-end, for an automatic 3-month extension, if necessary. There are penalties of up to \$5,000 for late or incomplete filing of Form 990 or Form 990EZ. Components with gross receipts of \$25,000 or less are not required to file Form 990 or Form 990EZ. However, if your component receives a Form 990 or Form 990EZ booklet with a preaddressed label from the IRS, it should affix the label to the return and fill out the information at the top of the form. Indicate that filing is not necessary and that it is only being filed for informational purposes by checking the appropriate box on the form.

## **Exempt Organization Business Income Tax Return (Form 990-T)**

Although a component may not be required to file Form 990 or Form 990EZ because its gross receipts are \$25,000 or less, it is required to file Form 990-T if it has gross income of \$1,000 or more from unrelated sources. Unrelated income is income derived from a trade or business that is regularly carried on and that is not substantially related to the organization's exempt purpose or function. This income is subject to federal income tax, commonly referred to as unrelated business income tax (UBIT). The most common source of unrelated income is advertising income. Some advertising may not be considered unrelated, but for the most part, the IRS recognizes it as unrelated. See IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations, for more details.

Form 990-T also is due on May 15, or by the 15<sup>th</sup> day of the 5<sup>th</sup> month after your year-end. File "Application for Automatic Extension of Time to File An Exempt Organization Return," Form 8868, for a 6-month extension, if necessary. Penalties and interest are assessed for late filing and for late payment of tax.

### **Public Inspection of Tax Returns**

A tax-exempt organization must make copies of its application for tax exemption and its three most recent Form 990 or Form 990EZ returns immediately available to anyone requesting them in person during normal business hours. Written requests must be acted on within 30 days of receipt unless advance payment is requested, in which case the 30 days begins when the payment is received. According to the IRS, this will apply in all cases unless the organization has made the requested documents widely available or if the IRS determines that the organization is the subject of a harassment campaign. Note that Form 990-T and the list of contributors included with Form 990 do not have to be provided. Noncompliance penalties are \$20 a day to a maximum of \$10,000.

Organizations can charge for the copies at the current IRS rate of \$1 for the first page and 15 cents for additional pages, plus postage cost if mailing is involved. If an organization makes its Form 990 available on the Internet for downloading, the only responsibility is to provide instructions on how to access it.

On several occasions the APTA has had requests for a copy of its most recent IRS Form 990. Some requests were made in writing, some by telephone, and some were in person. For more information regarding public inspection of Form 990, please go to [www.qual990.org/spotlight.html](http://www.qual990.org/spotlight.html) to view an article written by APTA auditor James B Kanuch, CPA.

Don't panic, it happens to us, too!

### **Choosing a Tax Preparer**

Income tax and other filing requirements can be complex and may vary from state to state. It may be necessary for your component to consult a local accounting firm to ensure that it is complying with all of the requirements. When selecting a preparer, you should look for one with experience in the nonprofit tax arena. Inquire about the nature of the firm's clients and how many are nonprofit organizations. After the firm prepares the tax return, the treasurer should review it and become familiar with the contents before signing the return as the organization's officer.

### **Statement for Recipients of Miscellaneous Income (Form 1099-Misc)**

You must file Form 1099-Misc for each individual, other than corporations, to whom you have paid at least \$600 in payment during the calendar year for any of the following:

- ▼ Services that were not performed as an employee (non-employee compensation to independent contractors)
- ▼ Prizes and awards
- ▼ Rents or royalties

A separate Form 1099-MISC must be filed for each recipient if \$600 or more was paid to each person. For example, file a Form 1099-MISC for person A who received a total of \$600 in a calendar year, file another one for person B who received a total of \$700 in the same year, but do not file one for person C who only received a total of \$599 in that same year.

Form 1099-MISC is due to the recipient by January 31 and is due to the IRS by February 28. You must use Annual Summary and Transmittal of US Information Returns, Form 1096, to transmit all 1099s to the IRS. You need to file only one Form 1096 with the IRS, attaching all 1099s you are filing by February 28. There are other types of Form 1099 in addition to Form 1099-Misc, but most components should not require their use. If your component does use more than one type of Form 1099, it must submit a separate Form 1096 for each type. Refer to the IRS publication entitled Package 1099 for more information on Form 1096 and Form 1099.

Note: Use Form 1099-MISC to report amounts paid for honorariums. Do not include reimbursements paid to a person for travel, meals, and lodging, or allowances or advances if that person provided written documentation of these expenses. However, if that person did not provide documentation of such expenses, you must issue Form 1099-MISC if the reimbursements (and other payments such as honorarium or non-employee compensation) total \$600 or more if that person is not an employee. Such amounts paid to employees must be reported on the employee's Form W-2. If it is reported as Form 1099-MISC or Form W-2 income, it is then the individual's responsibility to report those expenses as business expenses on individual income tax returns, since documentation was not provided.

There are some exceptions. If a person is reimbursed for or receives a per diem allowance not exceeding the maximum amount authorized to be paid in the locality by the federal government, he or she does not need to provide documentation to you; therefore, you would not have to file Form 1099-Misc or report it on Form W-2. The per diems allowed by the government vary by locality. This per diem is a combined allowance for meals and lodging. Reimbursements made in excess of these allowances must be substantiated.

The penalty for failure to file Form 1099-Misc on a timely basis, for failure to include all required information, for including incorrect information, or for failure to file is between \$15 and \$50 per failure, with a maximum penalty of between \$75,000 and \$250,000 in any calendar year. If the failure is due to

intentional disregard of the law, the penalty is at least \$100 per failure with no maximum penalty.

If you would like to order any of the forms or publications mentioned above, please visit [www.irs.gov](http://www.irs.gov).

# Unrelated Business Tax

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Unrelated Business Tax (UBIT) is an area to pay careful attention to, especially for components that have corporate sponsorships. Acknowledgment of a corporate sponsor does not automatically give rise to UBIT; it depends on the facts and circumstances. As an association professional, you must be aware of and consider the rules pertaining to unrelated business income tax when planning your organization's operations. Nonprofit organizations are taxed on revenues from unrelated trade or business activities. An organization's trade or business activities may only qualify as tax exempt if they further the organization's exempt purpose.

In addition, should the IRS make a determination that the unrelated business activities of an organization constitute a substantial amount of the organization's total activities, the organization's tax-exempt status could be revoked. In determining a substantial amount, the IRS considers employees' time spent on the unrelated activity and the gross receipts in comparison to the organization's total gross receipts.

An unrelated business activity is:

- ▼ any trade or business,
- ▼ organized for a profit,
- ▼ regularly carried on, and
- ▼ not substantially related to the organization's exempt function or purpose.

Unrelated business income (UBI) generally does *not* include the following type of income:

- ▼ interest, dividends, and capital gains earned from investments;
- ▼ royalties (may or not be taxable—see discussion below);
- ▼ registration or exhibit fees collected from trade shows, conventions, educational workshops, and seminars; or
- ▼ income that is derived from the efforts of volunteer or unpaid labor.

## **Organized for a Profit**

An unrelated activity must have been designed or conceived to make a profit. Don't confuse this with whether or not an activity actually makes a profit. That is, even if an activity is designed to make a profit and it doesn't, it's still considered unrelated if it meets all four criteria.

## **Regularly Carried On**

A regularly carried on activity is frequent or continuous and has an ongoing purpose to generate income. For example, running a commercial parking lot 1 day per week, year-round, is a regularly carried on activity. A seasonal activity also is considered regularly carried on if its primary purpose is to derive income and it's carried on repeatedly. One time events or sporadic endeavors, such as advertising revenues from intermittent athletic or social events (ie, advertising in

an organization's 50th anniversary annual report), are not regularly carried on activities.

### **Not Substantially Related**

To determine whether an activity is not substantially related, examine the relationship between the activity and the fulfillment of the organization's exempt purpose. An activity with a causal relationship to the achievement of exempt purposes, which furthers the organization's exempt purpose or which contributes importantly to the accomplishment of the tax-exempt purpose, is considered to be substantially related and a nontaxable activity. Otherwise, it is not substantially related and, therefore, is a taxable activity.

### **Advertising**

Many components have publications such as magazines, newsletters, Web sites, or rosters that contain advertising. Advertising revenue is almost always considered UBI and, therefore, taxable income. Some related expenses may be deducted in calculating taxable advertising income. The IRS defines taxable advertising income as payments to promote or market a company's products, services, facilities, or products. Calculation of taxable advertising income is very complex. Some related expenses may be deductible in calculating taxable advertising income; consult your tax advisor.

### **Advertising and Sponsorships**

Unlike advertising, sponsorships are usually payments for acknowledgment and are not taxable. An acknowledgment is recognition of sponsorship payments with the effect of identifying the sponsor rather than promoting its products. Acknowledgments may include:

- ▼ sponsoring logos and slogans without comparative or qualitative descriptions,
- ▼ sponsoring location and telephone numbers,
- ▼ neutral descriptions of a sponsor's product lines or services, and
- ▼ sponsoring brand or trade names and products or services lists.

If you offer advertising space to a sponsor in exchange for its acknowledgment, this will taint the acknowledgment. Sponsorship money becomes taxable if advertising space is offered in exchange for the sponsorship, or at a discounted rate.

### **Royalties**

Royalties are paid to the owner of property for permission to use the property and are usually payable in proportion to use. Examples include payments received for mailing list rentals or for the use of the organization's name or logo. The goal is to have these payments classified as passive royalties rather than income from conducting a business. As long as a nonprofit organization avoids providing substantial services in connection with the contract, payments in exchange for the use of a mailing list, name, or logos are clearly royalties and are exempt from UBIT.

For royalties to be considered exempt, it is crucial that contracts between the nonprofit organization and the payer be carefully structured. The nonprofit

organization must show a passive role. That is, the contract should indicate that the nonprofit organization does not provide the payer with advertising and marketing services. The nonprofit organization should avoid becoming actively involved in the program's operations and any contract that would require the organization to share expenses. Always review the terms of your written contract with your legal and tax advisors.

## IRS Audits

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If you receive a notice of an audit don't panic, and don't assume that anything is wrong. Contact our Finance Department who can put you in touch with a component who has undergone a recent audit.

Your component will be notified by the IRS in writing. Written notice of an audit will most likely include:

- ▼ name and phone number of the agent,
- ▼ entity or entities being audited,
- ▼ year(s) being audited,
- ▼ whether Form 990 and/or Form 990T audits are included,
- ▼ location and time of audit, and
- ▼ a list of materials you'll need to produce.

The notice may seem inflexible, but you may be able to change certain aspects, such as the time of the audit, by requesting a delay to get organized, the place of the audit be relocated to the accountant's or lawyer's office, and the list of materials be reduced to fewer items.

Give the auditor a space to work in and make the person comfortable. Have the requested materials assembled and organized according to numbered items on the list. The agent will most likely want to examine the following:

- ▼ the association's original application for tax exemption;
- ▼ IRS letter of determination;
- ▼ bylaws;
- ▼ articles of incorporation;
- ▼ board minutes;
- ▼ copy of Forms 990 and Forms 990T for the year(s) being audited, as well as the years immediately before and after, if available;
- ▼ payroll tax forms and Forms 1099;
- ▼ any and all books of account; and
- ▼ all records of receipts and disbursements, especially for unrelated business income tax purposes.

Maintain a list of all materials given to the auditors, and maintain a log of all interactions with an agent. If you cannot immediately answer an auditor's question, set a specific time you will get back with the answer—the sooner the better. Be careful not to expose other components to inquiry. Designate and fully brief one staff person to deal with the IRS in addition to any professionals (accountant and/or lawyer) handling the audit. The designated staff person should provide only the information the auditor requests and not volunteer additional information. Staff should be polite but totally uninvolved.

The audit is not complete until the results are reviewed by the agent's supervisor and you receive a Revenue Agents Report. In the meantime, your documents and materials will be returned with a preliminary finding of the results. If the IRS

concludes that your tax liability has changed, they will ask you to sign a waiver. Seek professional advice before signing this waiver.

Tax-exempt organizations have more of an obligation to comply accurately than for-profit organizations for three reasons:

- ▼ tax-exempt status is a form of subsidy,
- ▼ accountability is important for public part of enforcement, and
- ▼ to ensure tax law is enforced on tax-exempt organizations the same as for-profit businesses.

Avoid the IRS's attention by following some simple rules:

- ▼ File a legible, correct Form 990 on time with all the questions answered and all schedules included. If you leave out information and the IRS asks for it, provide it promptly.
- ▼ Respond to anyone who asks to see your Form 990. It is a public document and if a disgruntled consumer complains to the IRS, your component will draw unwanted attention.
- ▼ Catch potential mistakes before the IRS does.

### **Ten Most Common Tax Mistakes**

1. Failure to report changes in operations and activities to IRS. This is a requirement.
2. Overlooking IRS conditions in ruling letters, and not heeding audit changes and cautions.
3. Failure to consider obvious and subtle Unrelated Business Tax (UBIT) issues.
4. Improper allocations between activities and affiliates.
5. Improper transactions between related organizations. This applies to 501(c)(3)s, which are not allowed to give funds that are used for non-charitable purposes.
6. Filing of incomplete or inaccurate information and tax returns.
7. Failure to maintain adequate books and records.
8. Misclassification of employees as independent contractors.
9. Noncompliance with applicable lobbying rules and limitations. This has been a problem, especially in election years.
10. Failure to follow public inspection and fund-raising disclosure requirements.

# Annual Audit Reports

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APTA bylaws require that the financial statements of all components be audited on an annual basis. The term audit can mean several different things and can range from a peer review to a full-fledged independent audit. The main purpose of an audit is to determine whether financial statements may be relied on by third parties. Audits often study internal accounting control, which is the means by which errors in accounting data are detected and corrected. A component's audit provides a level of assurance to the membership and other third parties that the component is following sound financial practices. Some components choose to have an audit done every other year, which may be sufficient for small components. Four options for a year-end audit are described below. The option chosen will depend on the desired outcome of the audit report and the cost. For example, if the component applies for a bank loan, the bank may require an independent auditor's report. (Refer to Appendix 7 for Internal Control Questions)

## **Independent Audit**

An independent audit is performed by a certified public accountant (CPA). It is the most comprehensive and informative of the four options. The objective or end product of the examination of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles (GAAP). The auditor's report expresses his opinion or, if circumstances require, disclaims an opinion. In either case, the auditor states whether the examination has been done in accordance with generally accepted auditing standards (GAAS). The cost of an audit varies, depending on both the size of the CPA firm and the volume of information to be audited.

## **Review**

In a review engagement, a CPA performs some procedures to achieve a level of assurance. This level is not the same as that which could be attained by performing an audit in accordance with GAAS. The scope of services is less than in an independent audit. The objective of a review is to achieve, through inquiries and analytical procedures, a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with GAAP or, if applicable, with another comprehensive basis of accounting. A review service does not provide a basis for expression of an opinion on financial statements and is less expensive than an independent audit.

## **Compilation**

A compilation service is one in which the CPA performs few, if any, procedures, and is substantially reduced in scope when compared to a review service. The objective of a compilation of financial statements is to present, in the form of financial statements, information that is the representation of the management or owners without undertaking to express any assurance or opinion on the statements. In a compilation, the CPA should read the financial statements,

looking for obvious clerical or accounting-principle errors, but no other procedures need to be performed. The cost of a compilation is less than that of a review. Because the scope of a compilation is so limited, APTA recommends that a peer review be performed in addition to the compilation to ensure that basic internal controls are being performed.

### **Audit Committee/Peer Review**

An audit committee may be formed by the component and should consist of at least two or three members (peers) of that component other than the treasurer. This committee, with the guidance of the treasurer, should be responsible for reviewing the financial records of the component. An audit program first should be established. This program should state the objectives of the audit and the procedures that will be followed to achieve those objectives. The program also should outline sample questions pertaining to internal control. For most components, the audit will focus on cash receipts and disbursements. Consider using the following procedures and ask the following questions:

#### For Cash Receipts:

- ▼ Select a sample of receipts recorded in the checkbook or cash receipts journal (CRJ), and trace back to deposit slips and bank statements. Review 1 or more months of bank reconciliations.
- ▼ Make sure deposits that appear on the bank statement are recorded in the checkbook or CRJ.
- ▼ Are receipts deposited daily and without delay? (They may be deposited less frequently, depending on volume received each day.)
- ▼ Who deposits the money? (It should be someone other than person opening the mail.)
- ▼ Do at least two people verify daily cash receipts? (This may not be possible for all components, but it is best in order to avoid embezzlement.)
- ▼ Is a deposit slip retained for every deposit?
- ▼ Are all deposits recorded in the checkbook or CRJ?
- ▼ Does someone other than the person making deposits reconcile the checking account? (A “yes” to this question indicates better internal control.)

#### For Cash Disbursements:

- ▼ Select a sample of check requests and verify that they are all recorded in the checkbook or cash disbursements journal (CDJ). All check requests should be approved by the appropriate officer.
- ▼ Select a sample of recorded expenses, and trace them back to cancelled checks and supporting documentation. Check to see that all invoices are paid by their due date.
- ▼ Are all disbursements, except petty cash, made by check?
- ▼ Are all checks pre-numbered and under control?
- ▼ Are voided checks marked “VOID” and retained for inspection?
- ▼ Do check signers have access to accounting records, cash receipts, or bank reconciliations?
- ▼ Are check signers prohibited from drawing checks to “CASH?”

- ▼ Is check request and supporting documentation reviewed by the check signer?
- ▼ Is check request and supporting documentation stamped or marked “paid” to prevent duplicate payment?

The audit committee may decide to look closely at other areas besides cash receipts and disbursements. There are no set rules. The committee may be as flexible or stringent as it desires. After the audit is completed, an audit report should be prepared. It should describe what the audit accomplished. This report does not need to go into great detail about the procedures taken. The report should be signed by the committee as a whole.

**Sarbannes-Oxley Considerations:**

- ▼ Recent legislative initiatives have increased the importance of an annual audit in the “for profit” world. Some of these provisions are being applied to larger not-for-profit organizations (normally 501(c)(3)). The Finance department will alert Component Treasurers if and when any provisions apply to APTA Components.

Please be alert to local and state legislative actions that may arise.

- ▼ Many auditors are recommending that not-for-profit organizations develop and implement a “whistle blower” policy that establishes a program that allows staff and others to report possible violations. This policy should contain provisions that protect the “whistle blower,” and to make certain no retaliatory actions are taken.

Your board should approve the policy, and it should be given the widest dissemination.

APTA has a policy that it can share with component leaders.

# Incorporation

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All components are strongly encouraged to incorporate. Incorporation protects members of the component from personal liability for component obligations and from liability if component officers, directors, or staff violate the law in working on behalf of the component.

Another advantage of incorporation is that corporate structure is perpetual in duration, and the entity does not dissolve with changes in the membership. In addition, major vendors and lending institutions are more willing to offer substantial credit to incorporated organizations.

The law does not require a business organization to incorporate in the state where it is domiciled. In most cases, the incorporators are free to choose any state in which to incorporate. Some factors to consider when deciding where to incorporate are:

- ▼ Is the law of the state favorable to nonprofit organizations, and do the government agencies in that jurisdiction understand nonprofit organizations?
- ▼ Will incorporation outside of the state of residence create bureaucratic problems for the component's staff?
- ▼ Are there any political or legal benefits to incorporating in a specific state?
- ▼ What are the annual reporting requirements and fees for maintaining incorporation in the state?

It is recommended that the decision to incorporate be made by at least two persons in the component. Because incorporation laws vary by jurisdiction the use of local legal counsel is advised. The cost of incorporating varies, depending on the complexities and the cost of the legal counsel. It can vary from several hundred dollars to \$1,000 or more.

# Independent Contractors and Employees

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The decision by an employer to classify a worker as an employee or an independent contractor carries substantial tax and labor policy implications. Federal law vests employers with certain responsibilities to employees, such as collecting payroll taxes and worker's compensation insurance premiums and providing working conditions, wages and practices that meet prescribed standards. Employers are exempt from providing such treatment to independent contractors. Although it may appear tempting for an employer to label a worker an independent contractor and skirt these federally mandated responsibilities, such a misclassification can result in major costs and liabilities.

The most important point to be gained from this information is that calling workers independent contractors does not make them one. Whether a worker who performs a service is an employee or an independent contractor depends on the facts of the relationship and the law for which a determination is made. A clear and concise test of a worker's status does not exist; however, the underpinning of IRS rulings and court decisions have been the "right of control." An employer/employee relationship would probably be deemed to exist if the person for whom the services are performed has the right (and has exercised that right) to control and direct the individual who performs the services, not only regarding the result to be accomplished by the work, but also regarding the details and means by which that result is achieved. That is, if an individual is subject to the will and control of another person then, most likely, the individual will be considered an employee of that person. Conversely, an independent contractor is defined as one who generally is subject to the control or direction of another merely regarding the result to be accomplished by the work and not the means and methods for accomplishing that result.

The IRS uses 20 criteria as guides for determining whether an individual is an employee (Internal Revenue Bulletin 1987-41). They are:

- ▼ An employee is required to comply with instructions about when, where, and how the work is done. The IRS has determined that control exists if an employer has the right to force compliance, even though it is not exercised.
- ▼ An employee needs to be trained. The provision of regular in-service training by an employer indicates a degree of control over the worker. A further indication of control is the provision of policy, procedure, or personnel manuals.
- ▼ An employee's tasks are integrated into the employer's normal business operations. Integration is indicated if a worker provides a service that is offered by the firm.
- ▼ An employee's services must be personally rendered. The prohibition to delegate tasks to assistants or others indicates that the employer has control over both the results and the means.
- ▼ An employee is not responsible for hiring, paying, or supervising assistants. The employer is not controlling the means if the responsibility for maintaining assistants is vested in the worker.

- ▼ An employee has a continuing relationship with the employer. Frequent, although, sometimes irregular, use of a worker constitutes a continuing relationship.
- ▼ An employee's hours are set by the employer.
- ▼ An employee is required to devote full-time efforts to the employer's business. Employee status is indicated if the workers are unable to work for other clients because they must devote most of their time to performing the service of an employer.
- ▼ The job must be performed on the employer's premises. If services can be provided off premises, but the employer requires them in a specific location, then control over the worker is indicated.
- ▼ An employee's services must conform to order or sequence set by the employer. An independent contractor is free to establish a schedule for the service.
- ▼ An employee is required to submit regular oral or written reports.
- ▼ An employee's payment is based on time spent instead of by the job. Payment for some increment of time, including per visit, indicates an employee relationship.
- ▼ An employee is reimbursed for travel and other expenses.
- ▼ Employees receive supplies, materials, and other equipment from their employer.
- ▼ Employees have no significant investment in facilities, such as offices. Independent contractors should have a significant investment in the tools necessary to carry out their trade and to conduct business.
- ▼ An employee has no risk of economic loss. A person's ability to make a profit or suffer a loss on providing the service indicates independence from the employer.
- ▼ An employee does not work for more than one employer at a time. Having multiple clients indicates independent-contractor status.
- ▼ An employee does not make services available to the general public. Services should be made available on a regular and consistent basis.
- ▼ An employee is subject to discharge without employer penalty, even if job specifications are met. An independent contractor cannot be discharged so long as he or she is producing results that meet the contract specifications.
- ▼ An employee can terminate the relationship with the employer without incurring liability. An independent contractor is usually bound by contract to provide services for the duration of the contract.

A packet of information related to this issue is available from the APTA Department of Government Affairs. The packet more fully explains the application of the 20 factors and provides examples of IRS rulings applying these factors to real life situations. To obtain this packet, call 800/999-2782, ext 8533.

# Lobbying Laws

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Beginning in 1994, the IRS instituted rules regarding the deductibility of lobbying expenses for nonprofit organizations. The percentage of dues revenue that offsets lobbying expenses is no longer deductible, and each organization is required to determine and notify its membership of the nondeductible portion of dues.

On an annual basis, every chapter and section is required to provide lobbying estimates for the following calendar year to APTA by July 15.

## **Law is Inequitable**

The lobbying rules ignore the fact that many lobbying activities are funded by non-dues revenue by assuming that all lobbying expenses are funded by dues revenue. This assumption clearly overlooks the way APTA and its components operate. The nondeductible portion of member dues, also referred to as the percentage of dues spent on lobbying, is calculated by dividing lobbying expenses by dues revenue and similar items. Similar items are voluntary payments or special assessments for which members receive a benefit related to lobbying. To date, these are the only non-dues revenues that are considered to fund lobbying expenses.

## **Special Fundraising for Lobbying Expenses or Similar Items**

Some chapters have raised funds for lobbying expenses through special voluntary assessments or other fundraising activities. These funds are considered similar items and should be included with dues income in your estimates. In no circumstance may you reduce estimated lobbying expenses by the estimated funds to be raised. Your estimated lobbying expenses must include your total lobbying expenses, regardless of how they are to be funded.

## **Lobbying Definitions**

In 1994, the IRS issued proposed regulations that define lobbying as it relates to lobbying non-deductibility.

## **What is Lobbying?**

The law defines lobbying to include the following:

- ▼ Attempts to influence federal or state legislation, including most contacts with high-ranking federal agency or military officials and members of Congress and their staffs.
- ▼ Attempts to influence official action by certain executive branch officials at the federal level, including the president, vice president, and other officers or employees of the White House or the president and the two most senior-level officers of each of the other agencies in the Executive Office. It also includes cabinet officers and their immediate subordinates and other senior executive branch officials.

Influencing legislation must include a communication that refers to specific legislation and reflects a view on that legislation. Communication meeting both of these criteria is referred to as a lobbying communication. Specific legislation

includes specific legislative proposals and legislation that has already been introduced.

Although a lobbying communication is a necessary condition for influencing legislation, influencing legislation is not limited to lobbying communications. It also includes all activities, such as research, preparation, and other background activities, engaged in for the purpose of making or supporting a lobbying "communication." Therefore, amounts spent on activities intended to support the lobbying communication also are lobbying expenses subject to the disallowance.

Lobbying is distinguished from monitoring of legislative or executive activities in which there is no attempt to influence the formulation of legislation or executive branch action. However, when monitoring legislation leads to attempts to influence the outcome of that legislation, the costs of monitoring activities will be considered lobbying costs. Reporting compelled by Congress or by law will not be considered lobbying. Also excluded from the definition are local-level lobbying, regulatory contacts "in general," 501 (c)(3) organizations, and informing members. If an activity has both lobbying and non-lobbying purposes, the organization must allocate the activity's costs between these purposes.

The examples on the pages that follow will give you a general idea of how to calculate the lobbying percentage of dues. Each summer the Finance department will provide components with detailed, step-by-step instructions on how to calculate the percentage.

## Calculation of 2007 Lobbying Percentage Of Dues

### **STEP ONE:**

Set your calculator to at least 4 decimal places so that you will get accurate percentages. Then round up or down to the nearest whole percentage.

Compare your 2005 estimated lobbying percentage with your 2005 actual lobbying percentage.

**Note:** The terms “lobbying percentage” and “percentage of dues that is nondeductible” mean the same thing. In this document, the term lobbying percentage will be used

**IMPORTANT: Lobbying expenses should only include NONDEDUCTIBLE lobbying expenses as defined on the previous pages. DO NOT include deductible expenses in this calculation.**

Example:

2005 Estimated Figures:

Lobbying expenses: \$ 4,000  
Dues income: \$15,000

2005 Estimated lobbying percentage equals .2667 or 26.67% (\$4,000/\$15,000). **Round up to 27%.**

2005 Actual Figures:

Lobbying expenses: \$ 5,200  
Dues income: \$18,000

2005 Actual lobbying percentage equals .2889 or 28.89% (\$5,200/\$18,000). **Round up to 29%**

In this example, the percentage was underestimated by **2%**. (actual % exceeds estimated %).

Now proceed to Step Two.

### **STEP TWO:**

Calculate your estimated 2007 nondeductible lobbying expenses, dues income, and lobbying percentage. Suppose you estimate the following figures for 2007:

Lobbying expenses: \$6,000  
Dues income: \$20,000 (if you anticipate raising special funds to help defray lobbying expenses, **add** that figure to the dues income; **do not** deduct it from lobbying expenses)

Lobbying percentage: **30%** (\$6,000/\$20,000)

If you **underestimated** in Step One, **proceed to Step Three**

If you **overestimated** in Step One, or if the 2005 percentages **were equal**, **STOP HERE** and provide the 2007 figures calculated in Step Two to APTA. **DO NOT** adjust the percentage calculated in Step Two.

**STEP THREE: (only to be computed if you underestimated in Step One)**

Adjust your 2007 percentage by the **underestimated** percentage computed in Step One, as follows:

|   |                   |
|---|-------------------|
| 2007 percentage from Step Two:  | 30%               |
| <b>Add:</b> Excess of 2005 actual percentage over<br><u>2005 estimated percentage</u> | <u>2%</u>         |
| <u>Adjusted 2007 percentage</u>   | <b><u>32%</u></b> |

**Remember:** Because your 2007 percentage is adjusted, you must also adjust the 2007 estimated lobbying expenses as follows:

$$32\% = \text{Adjusted lobbying expenses}/\$20,000$$

$$\text{Adjusted lobbying expenses} = 32\% \times \$20,000 = \underline{\$6,400}$$

**You would provide the following figures to APTA for 2007:**

|                        |   |
|------------------------|---|
| 1) Lobbying expenses   | <b>\$6,400 (<u>not</u> \$6,000)</b>   |
| 2) Dues income         | <b>20,000</b>   |
| 3) Lobbying Percentage | <b>32% (<u>not</u> 30%) - Please<br/>round to nearest whole<br/>percentage.</b> |

## Resources

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The APTA Finance and Administration staff and the APTA Treasurer are available to serve as resources for questions or comments.

|  |                        |
|--|------------------------|
| Tim Lyons, PT<br>Treasurer                   | 903/725-3595 (home)    |
| Chuck Martin, CAE<br>Chief Operating Officer | 800/999-2782, ext 3130 |
| Jennifer Abbou, CPA<br>Director of Finance   | 800/999-2782, ext 3132 |
| Betty Claassen<br>Director of Accounting     | 800/999-2782, ext 3131 |
| David Moore<br>Associate Director of Finance | 800/999-2782, ext 3134 |

### **Component Leadership & Financial Development**

An open forum is held each year at APTA's Combined Sections Meeting. It is an informal session that all treasurers and component leaders are invited to attend. It provides an excellent opportunity for treasurers and other component leaders to exchange ideas and information on financial and tax issues with other component leaders, and to receive information and guidance from the national level.

## PROPOSED COMPONENT MODEL INVESTMENT POLICY

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### Introduction

#### Recognition:

- That each component should have a written investment policy approved by its Board of Directors.
- That the Board of Directors has a fiduciary responsibility to take an active role in the oversight/review of the portfolio.
- That the component Treasurer and its Finance Committee need to develop the procedures, develop/review the policy, monitor the performance, brief the Board periodically on performance factors, and make recommendations to the Board as appropriate.
- That fiduciaries need to take a total-return approach to investing that considers the potential impact of inflation over time. The goal for a prudent investment philosophy is a “real” rate of return—that is, one larger than the inflation rate.
- That under new fiduciary standards, investing not-for-profit funds only in “safe” government securities and interest-bearing accounts may not be considered prudent. Investing too conservatively may not be viewed as appropriate.
- That modern investing theory emphasizes the importance of diversification as a means of controlling risk in an investment portfolio.
- That the assets of Fund will be invested by managers with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the investment of assets of institutions of like character and with like aims.
- That the Treasurer or staff provide periodic updates to the component membership on the performance of the portfolio and its annual rate of return.

## Investment Objectives

### By Priority:

- Preservation of Capital
- Growth of Capital
- Liquidity

## Portfolio Characteristics

### Equities:

Acceptable equity securities include the following:

1. Stocks traded on major U.S. exchanges, including the New York or American stock exchanges or the NASDAQ system.
2. Convertible equity securities.
3. American Depository Receipts (ADRs).
4. Equity Mutual Funds or Exchange-Traded Funds (ETF's)
5. Foreign Equity Securities: For a Fund that has at least \$10 million in its managed asset pool, the Finance Committee may invest up to 10% of the total portfolio (as provided in the investment policy) in a mutual fund or an exchange-traded fund that invests in developed non-US equity fund(s). Emerging Market Foreign investments should be limited to 10% of the total International exposure. Direct investment in non-US exchange traded foreign equity securities should not be purchased.

### Fixed Income:

Acceptable fixed income securities include the following:

1. Securities issued or backed by the U.S. Government and its Agencies, as well as taxable or nontaxable securities of domestic and state and local government units.
2. Debt instruments issued by domestic corporations.
3. Fixed income mutual funds or exchanged-traded funds (ETF's) should not include more than 15% of their total investments below A-rated securities. Non-rated securities fall into this category.

In addition, the following rating guidelines should apply to fixed income securities:

1. The average portfolio quality shall be no less than A+.
2. 80% of the portfolio value must be rated A or better.

### Short Term Funds:

- Short-term funds and cash should be managed at the manager's discretion. Commingled funds may be utilized. If commercial paper is used, quality must be A1 – P1. Certificates of Deposit must be those of FDIC-insured U.S. financial institutions, up to the FDIC insurance limit per institution or combination.

## Unauthorized Funds

- The following categories of securities or security transactions are not permissible within the Fund's portfolio:
  1. Short sales.
  2. Put and Call Options (except that calls may be written against securities owned).
  3. Margin purchases or lending or borrowing money, except for publicly traded corporate debt.
  4. Letter stock, private placement, or direct placements.
  5. Equity securities of any company that has a record of less than three years continuous operation, including the operation of the predecessor, may not be purchased. Their funds may be held if they are a distribution from an existing investment.
  6. No single security purchase may be greater than 5% of that company's outstanding stock and/or any purchase for purpose of exercising control of management is prohibited.
  7. Securities of the trustee or manager, its parent, or subsidiaries (excluding money-market funds and common trust/mutual funds).
  8. Stock loans
  9. Any type of fixed income derivative securities.
  10. Any security which utilizes leverage.

### Exceptions:

- Any exceptions to the above guidelines must be waived in writing by the Board of Directors before any purchases are made.

## Proposed Finance Committee Responsibilities

### Responsibilities:

- Develop and recommend reasonable and consistent investment guidelines and objectives for the Fund.
- Using the Treasurer and staff, communicate regularly with the investment manager and investment consultant (if the component employs one) on duties and responsibilities.
- Ensure that the consultant and staff monitor and evaluate investment results on an ongoing basis to assure that policy guidelines are being adhered to and that objectives are appropriate. The Committee should conduct these reviews if a consultant and/or investment manager is not used.
- Recommend investment analysts and consultants to be used, as needed, to assist in carrying out the duties and responsibilities of the Committee. Monitor the performance of such investment analysts and consultants.
- Review the assets that are not included in the managed asset pools.
- Provide the feedback to the Board of Directors on the performance of the fund in relation to the goals.
- Ask questions of the APTA Treasurer and/or Chief Financial Officer if an issue remains unresolved.

## Board Responsibilities

### Responsibilities:

- Approve reasonable and consistent investment guidelines and objectives for the Fund. The Board of Directors should exercise its fiduciary role by insisting that the fund include instruments that will keep up with or exceed inflation rates.
- Monitor and evaluate investment results on a periodic basis using the Committee and staff reports to assist with this evaluation.
- Approve any recommended changes to the procedures to include expanding the process to include investment managers and/or an investment consultant.

## Possible Return Objectives

### Return Objectives:

- The total Fund return should exceed inflation as measured by the Consumer Price Index. The “real return” should be at least 5% above the CPI inflation rate over a complete market cycle or 5-year period. To achieve this return objective assume that stocks historically provide a 10% return and bonds return 5%, therefore an asset allocation target range of 60% stocks and 40% bonds would be expected to earn 8% or 5% real return after deducting a 3% return for inflation. A higher allocation to stocks is expected to perform better but will also be more volatile/risky.
- Equity investments should exceed the return of the S&P 500 Stock Index over a 3-5 year time period.
- Bond investments should exceed the return of the Lehman Brothers Aggregate Index over a 3-5 year time period.

**REQUEST FOR CHECK**

Amount: \$ \_\_\_\_\_

Date of Request: \_\_\_\_\_

Due Date: \_\_\_\_\_

Payable to: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

SS# (needed for 1099 purposes) \_\_\_\_\_

Purpose \_\_\_\_\_  
\_\_\_\_\_

Program # \_\_\_\_\_ Line Item # \_\_\_\_\_ Goal \_\_\_\_\_ Obj \_\_\_\_\_ Activity # \_\_\_\_\_

Is this expense budgeted? Yes \_\_\_\_\_ No \_\_\_\_\_

If "no", explain rationale for expense: \_\_\_\_\_

Name of Person Originating Request: \_\_\_\_\_



**SIGNATURES: Please note that by signing below you acknowledge you have reviewed the attached invoice for accuracy and you authorize payment of this invoice.**

\_\_\_\_\_  
Program Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Senior Vice President

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Operating Officer

\_\_\_\_\_  
Date



**ACCOUNTING USE ONLY:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Approved for Payment \_\_\_\_\_

\_\_\_\_\_ 1099 Report

\_\_\_\_\_ Virginia Sales Tax Report

# Accounting Terms

**Assets**

Assets are what you own. Assets include cash, investments, security deposits, furniture, equipment, computers, buildings, land, and automobiles. If your component uses the accrual method of accounting, other assets may include accounts and notes receivable (amounts owed to the component), and prepaid expenses (expenses the component pays before they are due).

**Liabilities**

Liabilities are debts you owe to third parties. Liabilities include accounts and notes payable, mortgage balances, and deferred (unearned) revenue. Deferred revenue is revenue received before it is earned. You will only show liabilities if your component uses the accrual method of accounting.

**Restricted Funds**

Restricted funds are funds earmarked for specific purposes that are unavailable for everyday use. There are temporarily restricted and permanently restricted funds. Each is accounted for individually.

**General Fund Balance** (also known as Net Worth, Retained Earnings, Owner's Equity). The General Fund Balance represents capital and accumulated earnings. It is total assets minus the sum of total liabilities and restricted funds. It represents what you own minus what you owe.

**Income/Revenue**

Income or revenue results from member dues, conferences, educational seminars, subscriptions sold, investments, sales of publications and merchandise, fund-raising events, and other activities with the purpose of earning income.

**Expenses**

All costs associated with the operation of a business. Expenses may include salaries, benefits, postage, telephone, supplies, rent, printing, insurance, and taxes.

## RECORD RETENTION SCHEDULE

| <i>Retention<br/>Period</i>   | <i>Retention<br/>Period</i> |
|---|-----------------------------|
| 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.....   | 3 years                     |
| Bank statements .....   | 3 years                     |
| Cash books .....  | Permanently                 |
| Chart of accounts.....  | Permanently                 |
| Checks (canceled-see exception below).....  | 3 years                     |
| Checks (canceled for important payments,<br>i.e., taxes, purchases of property, special<br>contracts, etc. Checks should be filed<br>with the papers pertaining to the under-<br>lying transaction) ..... | Permanently                 |
| Contracts, mortgages, notes and leases<br>(expired).....  | 7 years                     |
| (still in effect).....  | Permanently                 |
| Correspondences (general).....  | 2 years                     |
| Correspondence (legal and important<br>matters only) .....  | Permanently                 |
| Correspondence (routine) with customers<br>and/or vendors .....   | 2 years                     |
| Deeds, mortgages and bills of sale.....   | Permanently                 |
| Depreciation schedule .....   | Permanently                 |
| Duplicate deposits slips.....   | 2 years                     |
| Employment applications.....  | 3 years                     |
| Expense analyses/expense distribution<br>schedules .....  | 7 years                     |
| Financial statements (year-end, other<br>optional) .....  | Permanently                 |
| Garnishments.....   | 7 years                     |
| General/private ledgers, year-end trial<br>balance .....  | Permanently                 |
| Insurance policies (expired).....   | 3 years                     |
| Insurance records, current accident<br>reports, claims, policies, etc.....  | Permanently                 |
| Internal audit reports (longer retention<br>periods may be desirable).....  | 3 years                     |
| Internal reports (miscellaneous).....   | 3 years                     |
| Inventories of products, materials and<br>supplies .....  | 7 years                     |
| Invoices (to customers, from vendors) .....   | 7 years                     |
| Journals.....   | Permanently                 |
| Magnetic tape and tape cards.....   | 1 year                      |
| Minute books of directors, stockholders,<br>bylaws and charter .....  | Permanently                 |
| Notes receivable ledgers and schedules.....   | 7 years                     |
| Option records (expired) .....  | 7 years                     |
| Patents and related papers .....  | Permanently                 |
| Payroll records and summaries .....   | 7 years                     |
| Personnel files (terminated) .....  | 7 years                     |
| Petty cash vouchers .....   | 3 years                     |
| Physical inventory tags .....   | 3 years                     |
| Plant cost ledgers.....   | 7 years                     |
| Property appraisals by outside appraisers.....  | Permanently                 |
| Property records, including costs, depreci-<br>ation reserves, year-end trial balances,<br>depreciation schedules, blueprints,<br>and plans .....   | Permanently                 |
| Purchase orders (except purchasing<br>department copy).....   | 1 year                      |
| Purchase orders (purchasing department<br>copy) .....   | 7 years                     |
| Receiving sheets.....   | 1 year                      |
| Retirement and pension records.....   | Permanently                 |
| Requisitions .....  | 1 year                      |
| Sales commission reports.....   | 3 years                     |
| Sales records.....  | 7 years                     |
| Scrap and salvage records (inventories,<br>sales, etc.).....  | 7 years                     |
| Stenographers' notebooks.....   | 1 year                      |
| Stock and bond certificates (canceled) .....  | 7 years                     |
| Stockroom withdrawal forms.....   | 1 year                      |
| Subsidiary ledgers .....  | 7 years                     |
| Tax returns and worksheets, revenue<br>agents' reports and other documents<br>relating to determination of income<br>tax liability .....  | Permanently                 |
| Time books/cards/software files .....   | 7 years                     |
| Trademark registrations and copyrights .....  | Permanently                 |
| Training manuals.....   | Permanently                 |
| Union agreements.....   | Permanently                 |
| Voucher register and schedules .....  | 7 years                     |
| Vouchers for payments to vendors,<br>employees, etc. (includes allowances<br>and reimbursement of employees,<br>officers, etc. for travel and entertain-<br>ment expenses).....                           | 7 years                     |
| Withholding tax statements.....   | 7 years                     |

XYZ Component  
Statement of Income and Expenses  
For the Year Ended December 31, 2006

## INCOME

|                          |              |          |
|--------------------------|--------------|----------|
| Conference Registrations | \$ 4,000     |          |
| Membership Dues          |              | 25,000   |
| Interest/Dividends       |              | 2,000    |
| Newsletter Advertising   | 1,000        |          |
| Other Revenue            | <u>3,000</u> |          |
| Total Income             |              | \$35,000 |

## EXPENSES

|                       |       |                 |
|-----------------------|-------|-----------------|
| Advertising           |       | 75              |
| Bank Fees             |       | 5               |
| Donations/Awards      |       | 3,000           |
| Salaries              | 4,000 |                 |
| Honorariums           |       | 2,000           |
| Meeting Services      | 1,500 |                 |
| Miscellaneous         |       | 2,000           |
| Office Supplies       | 200   |                 |
| Postage               | 2,000 |                 |
| Printing/Copying      | 3,000 |                 |
| Professional Fees     | 500   |                 |
| Telephone             |       | 900             |
| Member Travel         | 8,000 |                 |
| Staff Travel          |       | 2,000           |
| Tuition and Education |       | <u>300</u>      |
| Total Expenses        |       | <u>\$32,480</u> |

NET INCOME (LOSS) \$ 2,520

XYZ Component  
Statement of Financial Position  
December 31, 2006

ASSETS

|                       |                  |
|-----------------------|------------------|
| Cash                  | \$ 50,000        |
| Investments           | 175,000          |
| Accounts Receivable   | 10,000           |
| Furniture & Equipment | 20,000           |
| Prepaid Expenses      | <u>5,000</u>     |
| Total Assets          | <u>\$260,000</u> |

LIABILITIES & FUND BALANCE

|   |                  |
|---|------------------|
| Accounts Payable<br>(amounts owed to vendors for bills)           | \$10,000         |
| Other Liabilities<br>(such as amounts owed to banks<br>for loans) | <u>5,000</u>     |
| Total Liabilities   | \$15,000         |
| Fund Balance  | <u>\$245,000</u> |
| Total Liabilities<br>And Fund Balance                             | <u>\$260,000</u> |

American Physical Therapy Association  
 1111 North Fairfax Street, Alexandria, VA 22314-1488 (703) 684-2782

**TRAVEL EXPENSE REIMBURSEMENT REQUEST**

NAME (PRINT) \_\_\_\_\_  MEMBER  NON-MEMBER  STAFF

SEND CHECK TO: \_\_\_\_\_  
 STREET \_\_\_\_\_  
 CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_

SOCIAL SECURITY # \_\_\_\_\_ PURPOSE OF TRAVEL \_\_\_\_\_

| TRAVEL                                      |       |     |     |     |     |     |     |       |
|---|-------|-----|-----|-----|-----|-----|-----|-------|
| CITY  | FROM: | TO: | TO: | TO: | TO: | TO: | TO: | TOTAL |
| DATE  |       |     |     |     |     |     |     |       |
| AIRFARE or RAIL<br>(Documentation Required) |       |     |     |     |     |     |     |       |
| GROUND TRANSPORTATION                       |       |     |     |     |     |     |     |       |
| CAR MILEAGE<br>(Personal Automobile)        |       |     |     |     |     |     |     |       |
| CAR RENTAL                                  |       |     |     |     |     |     |     |       |
| HOTEL-ROOM                                  |       |     |     |     |     |     |     |       |
| BREAKFAST*                                  |       |     |     |     |     |     |     |       |
| LUNCH*                                      |       |     |     |     |     |     |     |       |
| DINNER*                                     |       |     |     |     |     |     |     |       |
| MISCELLANEOUS**                             |       |     |     |     |     |     |     |       |
| STAFF EXPENSE RECORD                        |       |     |     |     |     |     |     |       |
| <b>TOTALS</b>                               |       |     |     |     |     |     |     |       |

|                                       |  |
|---------------------------------------|--|
| LESS TRAVEL ADVANCE                   |  |
| LESS EXPENSES PAID BY/CHARGED TO APTA |  |
| <b>TOTAL REIMBURSABLE</b>             |  |

\*See Reverse Side for Reimbursement Limits

| **MISCELLANEOUS EXPENSE RECORD EXPLANATION |                   |                     |                        |        |
|--|-------------------|---------------------|------------------------|--------|
| DATE                                       | NAME OF GUEST (S) | ASSOCIATION PURPOSE | PLACE EXPENSE OCCURRED | AMOUNT |
|  |                   |                     |                        |        |
|  |                   |                     |                        |        |
|  |                   |                     |                        |        |

**→ I CERTIFY THAT THIS STATEMENT IS TRUE:** \_\_\_\_\_ **DATE:** \_\_\_\_\_  
 (SIGNATURE)

DATE: \_\_\_\_\_ DATE: \_\_\_\_\_ SVP  
 PROG DIR APPROVED: \_\_\_\_\_ APPROVED: \_\_\_\_\_

SVP/ADMINISTRATION APPROVED: \_\_\_\_\_ DATE: \_\_\_\_\_

| FOR STAFF USE ONLY   |  |  |  |  |  |  |  |  |
|----------------------|--|--|--|--|--|--|--|--|
| PROGRAM OR PROJECT # |  |  |  |  |  |  |  |  |
| ACTIVITY #           |  |  |  |  |  |  |  |  |

| FOR ACCOUNTING USE ONLY |           |
|-------------------------|-----------|
| CHARGE TO:              | DATE PAID |
|                         | CHECK NO. |

## INSTRUCTIONS

Internal Revenue Service regulations (1.162.17) require that an employee who is reimbursed by his employer for travel and entertainment expenses be able to support those expenses as to: a) the amount, b) the time and place of the travel or use of the facility, c) the business purpose of the expense, and d) the business relationship to the employee of persons entertained.

### GENERAL

1. The form is designed to provide for seven days expenses. The first column is for the first day, etc., until a full week is ended or the trip is completed.
2. Please enter dates at the head of the appropriate column.
3. Purpose of travel – a phrase indicating the purpose of the trip; e.g., committee meeting.
4. Original receipts are to be attached for all expenditures, including those that are paid by or charged directly to APTA. Deduct as an advance, expenditures paid by or charged directly to APTA.

### REIMBURSABLE EXPENSES

5. Airfare or Rail – include non-local transportation (airfare, rails, etc.) not charged to APTA. Receipts must be attached. Travel insurance is provided by APTA; therefore, additional travel insurance is not reimbursable.
6. Ground Transportation – Personal Auto Mileage – Local Transportation, including to and from the airport or train station, is to be entered. Include tips in the total. Personal automobile mileage is reimbursable at 50.5 cents per mile for travel in 2008, as per the IRS.
7. Car Rental – enter amount for Hertz, etc. Attach original receipts.
8. Hotel Room – attach hotel and motel bills in all cases.
9. Meals – the traveler’s meals only. Meals with guests including employee’s portion are to be included in “Staff Expense Record.” APTA staff members must have receipts for all meal costs over \$5.00.
10. Staff Expense Record – the names of the guests, association purpose, the place expense occurred, and the amount must be entered in “Staff Expense Record” box and the daily totals must be entered on the line above.
11. Miscellaneous – include any unusual expenses incurred.
12. Total Expenses – total the daily columns and total column.
13. Travel Advance – enter the amount of the outstanding travel advance(s) applicable to the trip(s).
14. Total Reimbursable – subtract advance from total expenses. This is the amount to be reimbursed. If the figure is negative, a check for the amount indicated made payable to APTA should accompany the report.
15. REIMBURSEMENT is on the basis of actual hotel expenses (room and tax) plus actual travel costs (plane, train, bus) and actual local ground transportation. (Airfare reimbursement is based on COACH fare unless ONLY first class is available). Per Diem is limited to \$36.00 per day for breakfast, lunch, and dinner UNLESS receipts are attached to the reimbursement request; whereupon, per diem will be reimbursed UP TO \$65.00 per day. RECEIPTS MUST BE ATTACHED TO REIMBURSE AT THE \$65.00 RATE.
16. Any meals provided by the APTA will be deducted from your reimbursement as follows:

|                     |         |
|---------------------|---------|
| Breakfast deduction | \$ 8.00 |
| Lunch deduction     | \$10.00 |
| Dinner deduction    | \$18.00 |

Rev. DEC 2007

## Internal Control Questions

- ▼ Do you check references and/or backgrounds of new staff?
- ▼ Who gets the unopened monthly bank statements?
- ▼ Who reconciles the bank statement?
- ▼ Is the reconciliation accomplished within days of receipt?
- ▼ Who controls and inventories blank checks?
- ▼ Are safes locked when not in use?
- ▼ Who approves invoices for payment?
- ▼ Who opens the mail and places a restrictive endorsement on the check?
- ▼ Who prepares the check in relation to who makes the accounting entry?
- ▼ Who processes and mails the check after it is signed?
- ▼ Does the check payee section have the full name, not abbreviations, of the firm?
- ▼ Does your accountant or bookkeeper take time off?
- ▼ Do you use a commercial accounting software package?
- ▼ Are computer passwords used to control the access to individual accounting databases?
- ▼ Does staff exit software applications when away from their desks?
- ▼ Do your program directors or committee chairs receive periodic reports related to their program responsibilities?
- ▼ Are your financial statements produced frequently and reviewed by the president and/or treasurer?
- ▼ Is the Board regularly briefed on the financial performance of the component?