



Financial Responsibilities Playbook

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Executive Summary

This playbook is a reference tool for Chapter board of directors, particularly the Treasurer, regarding the financial responsibilities of a chapter.

All chapters should have a well designed chart of accounts and utilize accounting software to properly record all financial transactions in the appropriate journals and ledgers. Financial statements should be prepared monthly and regularly reviewed by the board. Additionally, every chapter should prepare an annual budget and should compare budget to actual throughout the year.

Every chapter should have at least a checking account to pay bills. A savings account is also a good idea. There are general guidelines on how cash accounts should be handled to ensure appropriate checks and balances.

Best practice suggests that chapters should strive to maintain reserves equal to at least 50% of operating expenses. Some chapters may choose to development investment policies and invest their excess cash.

To fulfill its fiduciary obligations and to avoid potential liability for misconduct, chapter boards must establish sound internal controls (i.e. a system of policies and procedures that minimize the likelihood of misappropriation of chapter assets or misstatement of chapter accounts).

SIM and its chapters are 501(c)6 organizations. SIM maintains a group exemption that enables its chapters to obtain tax exempt status without filing individual applications to the IRS. All chapters (even those included under SIM's group exemption) are required to file an annual return with the IRS. Depending on gross receipts, the chapter must either file a Form 990N, Form 990EZ or Form 990. Annual returns must be filed by May 15th for chapters whose fiscal year ends on December 31. In addition to the Form 990, chapters are required to file Form 990-T if they have more than \$1,000 gross income from unrelated business activities (UBIT).

Chapters must determine whether the people who are providing services to the chapter are considered employees or independent contractors. Chapters must report independent contractor annual earnings of more than \$600 on Form 1099. Alternatively, if a worker is characterized as an employee, the chapter must report the employees' earnings annually on Form W-2.

In general, an independent, periodic review of a chapter's financial control procedures and of the accuracy of its financial statements helps ensure financial stability. It is the chapter's decision as to whether to have an audit.

Nonprofit organizations are required to maintain certain records for a specific period of time. Every chapter should have a record retention policy.

SIM maintains D&O and General Liability insurance coverage for the chapters. Volunteers should be familiar with the coverage provided as well as other protections available by law.

Board and Committee Responsibilities

The financial responsibilities of a chapter are divided into five (5) major areas:

1. Keeping financial records
2. Preparing accurate and meaningful financial statements
3. Budgeting and anticipating financial challenges
4. Safeguarding and managing the chapter's financial assets
5. Complying with federal, state and local reporting requirements

Although not required, a Finance Committee may oversee, review and guide the accounting practices of the chapter. To retain objectivity, members of the finance committee should be independent of chapter operational management and, ideally, have a solid understanding of general business and finance issues.

In general, the finance committee helps the board of directors see that appropriate accounting policies and internal controls are established and followed. It ensures that the chapter issues financial statements on time and in accordance with regulatory obligations. The finance committee may also establish financial policies and procedures for the board's approval, internally review and report on the chapter's financial performance, and approve the annual budget before submission to the board. For control purposes, either the finance committee chairman or the chapter's treasurer should review all financial forms and reports.

Smaller chapters especially may not have a separate finance committee. In that case, the board would be responsible for the typical duties of the finance committee. It is important that the treasurer not have sole responsibility for chapter finances so as to ensure appropriate internal controls.

The chapter treasurer is charged with stewardship of the chapter's funds and with monitoring and reporting the chapter's financial position. The treasurer should have basic accounting knowledge and, ideally, general financial management expertise.

Cash vs. Accrual Basis Accounting

A chapter can choose one of two primary methods of bookkeeping: cash basis or accrual basis. SIM International uses cash basis accounting.

Cash basis is simplest method and the most widely used by not-for-profit organizations. This involves recording revenues in the cash receipts journal only when they are actually received and recording expenses in the cash disbursements journal only when the money is actually spent.

With the accrual method, all income is recorded when it is earned or receivable, regardless of when it is actually received. Expenses are recorded when they are incurred, regardless of when they are actually paid. In addition to the cash receipts and cash disbursements journals, accrual accounting calls for an accounts receivable journal and an accounts payable journal. The accrual method, although it is more complicated, more accurately reflects the income and expenses of a chapter over a period of time.

Chart of Accounts

A chart of accounts enables a chapter to categorize its operations. Each account is assigned a title and number and is classified under a general category or type of account – assets, liabilities, fund balance, revenue and expenses. Each account should have a number and a title that clearly describes its nature.

The chapter's annual budget and its categories offer a good starting place for developing a standard chart of accounts. It's important to find a balance between too few categories (which may not provide sufficient information) and too many categories (which may be confusing).

Another option is to review SIM International's chart of accounts and adopt those that apply to the chapter's activities. This approach has the advantage of producing financial reports that are organizationally uniform.

Once an effective chart of accounts has been developed, the chapter should use the same accounts for the budget, the bookkeeping system, and the internal financial statements. This way, comparisons between budgeted and actual revenues and expenses are meaningful.

A sample chapter Chart of Accounts can be found in the addendum.

Accounting/Bookkeeping System

Journals and ledgers are the principal components of a bookkeeping system. The process of keeping the books merely means recording all financial transactions in the appropriate journals and ledgers. The nature and form of a chapter's books will vary with its needs and complexity.

It is recommended that chapters maintain financial records on accounting software. Computerized accounting systems will greatly enhance the ability to easily keep track of all expenses paid by the chapter and cash received. It will also enable the Treasurer to produce customized reports to present to the board and members.

Using a well-designed chart of accounts, accounting software packages can automatically group the totals of similar accounts and journals into useful figures for a chapter's financial statements.

Some popular accounting packages that a chapter could consider include:

- [Quicken](#) – a “checkbook” system that provides cash-basis financial reports only
- [Quick Books](#) – a more refined version of Quicken that allows for accrual basis financial management
- [Sage 50 \(Peachtree\)](#) – has an increased level of sophistication for preparing more detailed financial statements and reports.
- [Xero](#) – online accounting, invoicing, billing and banking

Regardless of the bookkeeping system, those in charge of the chapter's finances need to understand the interrelationship of the following “books”:

Journals – where similar transactions are recorded and efficiently summarized. The key to understanding a journal is that each transaction is recorded twice – once in a “total” column and once again in a specific “category” column

Cash receipts journal – where a chapter records all income, such as dues, meeting registrations, sponsorships, etc. As each item is received, it is added to total income and also listed in the appropriate income category. Sample:

Date	Details	Receipt	Grant	Gift	Dues	Reg	Misc.	Amount	Bank
10/1	EPA	101	5,000.00						5,000.00
10/4	D. Singh	102			100.00				100.00
10/4	D. Lane	103		175.00					175.00
10/12	T. Arnold	104				227.50			227.50
10/15	IBM	105					Spons	5,000.00	5,000.00
	TOTAL		5,000.00	175.00	100.00	227.50		5,000.00	10,502.50

Cash disbursements journal – where a chapter records all expenses. The journal's categories should correspond to the budget categories and should be totaled and reviewed monthly. Sample:

Date	Payee	Check #	Bank	Equipment	Supplies	F&B	Misc.	Amount
10/3	K. Wilson	001	50.00				Petty Cash	50.00
10/3	Staples	002	437.00	437.00				
10/6	Marriott	003	325.00			325.00		
10/12	Petty Cash	004	25.20		6.20	15.00	Postage	4.00
	TOTALS		837.20	437.00	6.20	340.00		54.00

General journal – used to record transactions that do not correspond to any other journal. Examples include: interest income, non-monetary contributions and in-kind support.

General ledger – summarizes and continually updates all financial information. Each journal is totaled monthly; these totals are then transferred, or posted, to the general ledger. Sample:

Date	Items	Jrnl	Debits	Credits	Balance
10/31		CR-1	6,002.50		6,002.50
10/31		CD-1		2,162.42	3,840.08

Trial balance – a listing of each account and its balance in the general ledger. The total debits should equal the total credits, thus verifying the books are balanced. Sample:

	Account	Debit	Credit
100	Cash	6,355.00	
110	Accounts Receivable	150.00	
140	Supplies	50.00	
145	Prepaid Insurance	1,200.00	
150	Equipment	3,000.00	
155	Vehicles	15,000.00	
200	Accounts Payable		50.00
250	Unearned Revenue		270.00
280	Accounts Receivable		10,000.00
300	Capital		15,000.00
400	Event revenue		750.00
500	Wages expense	200.00	
510	Gas expense	30.00	
520	Advertising expense	35.00	
		<u>26,020</u>	<u>26,020</u>

Financial Statements

A key responsibility of a chapter treasurer is preparing complete and comprehensible financial statements for chapter leaders to regularly review on a timely basis. Financial statements should be prepared monthly and carefully reviewed by board members so they can make informed decisions on operations.

There are three primary financial statements. All represent the actual financial position of the chapter. Consequently, these statements must not include budget numbers, except for comparative purposes.

1. Statement of Financial Position (Balance Sheet) – this indicates chapter assets and liabilities as of a certain date (e.g. end of the month). Assets (cash, inventory), as well as liabilities (commitments) and total net assets (chapter equity or fund balance) are each listed and totaled. Total net assets must equal total assets minus total liabilities; the balance represents the amount of revenues remaining after subtracting expenses.
2. Statement of Activities – these report chapter financial activity and the results of operations during a certain time period (e.g. the previous month, quarter or year). It indicates the major sources and amounts of revenue and expenses, as well as the amount of surplus or deficit. Statements of Activities should include revenues and expenses for the most current period as well as year-to-date transactions.
3. Cash Flow Statement – this statement summarizes the resources available to a chapter and how such resources are used during a certain time period, usually the fiscal year. Similar to the Statement of Activities, the Cash Flow Statement presents cash received and spent. It differs, however, by grouping transactions into four categories: operating, capital, financing and investing. The Cash Flow Statement contains less detail of specific types of operating cash flows.

An essential function of chapter financial management is to carefully analyze and evaluate variances in income and expenses from budget and/or prior-year figures, followed by corrective action, if required. To make the most of the Statement of Activities, it should include a point for comparison so the board of directors has a basis for making a judgment on operations. The chapter treasurer or finance committee should notify the board immediately of any significant discrepancies between budgeted and actual financial performance figures.

A sample financial statement can be found in the addendum.

Dashboards

Financial statement analyses are not limited to information in a chapter's books and records. They can include pertinent statistics and economic facts that relate to the various phases of chapter activity.

An effective method to track financial and non-financial metrics is through a dashboard.

Dashboard reports communicate critical information to your board in a concise, visual, more compelling way. Dashboards help nonprofit leaders focus attention on what matters most in their organizations.

The measures tracked on a dashboard may include:

- Net assets
- Cash flow
- Program revenue and expenses
- Investment performance (if applicable)
- Membership trends (revenue and numbers)
- Sponsorship/fundraising revenue

SIM International's dashboard report can be found in the addendum.

Budgets

A budget is a plan of action. It represents a chapter's blueprint for the coming months or years, expressed in monetary terms.

Establishing an Annual Budget

The budget results from the board's decisions regarding the chapter's future programs. Thus, a chapter must know its goals before it can prepare a budget. These five steps are recommended for preparing a well-conceived budget:

1. Prepare a list of objectives or goals for the upcoming year. Reevaluate the relative priority of existing programs and include any new initiatives
2. Estimate the cost of each objective or goal on the list. For continuing programs, the previous year's actual expenses and budget will be helpful in estimating this cost. For new programs, substantial effort may be necessary to accurately estimate costs.
3. Estimate the expected income of the chapter. Member dues provide the principal income for many chapters, so carefully consider the expected economic climate in the community and within the members' industries or professions. A year when unemployment is high or the local economy takes a downturn is a poor time to expect increased dues revenue.
4. Compare total expected income to the expenses of achieving the chapter's objectives and goals. Where projected expenses exceed income, value judgments have to be made. At this point, the chapter finalizes its operational blueprint for the coming year.
5. Submit the proposed budget to the entire board for ratification. This should not just be a formality.

Large revenue-generating events, such as an annual golf event, should have a separate budget that is approved by the board.

Comparing Budget to Actual Performance

A budget, to be effective, must be a working document that forms the basis for action. It should not be seen as a restrictive device but as a means of estimating and guiding the expenditure of chapter resources.

The budget should be compared to actual financial statement figures every month to monitor chapter financial activities throughout the year. Properly used, the budget can provide an early warning to the board that the chapter may fall short of its financial goals. The board must be willing to take action if it becomes apparent that expenses are exceeding budget or that income has not been as high as anticipated. The board must be prepared to modify chapter plans if a budget shortfall appears likely.

Comparing the chapter's budget to actual operating results each month can be an effective internal control. If the board identifies and follows up on deviations from the budget, it reduces the likelihood of misappropriation occurring or remaining undetected.

During the course of a budget year, a chapter may be tempted to revise its budget. Wherever possible, restrict budget revisions to those instances where major changes of income or expense levels develop. In general, it is better to note and explain deviations from a current year's budget rather than make minor mid-year revisions so that the information is recorded for budget planning in subsequent years.

Cash Flow Projections

Even if a chapter estimates that a year's total income may cover that year's projected expenses, the timing of the income's receipt is critical. A chapter should analyze its cash needs on a monthly basis, keeping the following issues in mind:

- During which part of the year are most educational programs and meetings held?
- When will membership dues be collected?
- Will rent or other fixed expenses increase during the year?
- If the chapter employs workers, will employee payroll taxes change? When will the changes take effect?
- What is the schedule of special events that may unusually increase either revenue or expenses?

If the balances of estimated cash on hand at the end of any given month drops below zero, the chapter will experience negative cash flow. In this case, the board must take steps to improve cash flow – possibly by cutting back or rescheduling program delivery, increasing fund-raising efforts or investigating short-term borrowing opportunities.

Forecasting cash flow allows the board enough time to investigate alternative sources of revenue. Proper planning and close monitoring of cash flow enables a chapter to sustain uninterrupted delivery of its programs and services.

Bank Accounts

Each chapter should have at least a checking account to pay its bills. A savings account is also a good idea to accumulate cash.

Depositing chapter funds into an account belonging to an individual associated with the chapter constitutes poor financial management and places undue fiduciary responsibility on that person.

To open a bank account a chapter needs its own employer identification number (EIN). This nine digit number, assigned for IRS filing and reporting purposes, establishes a unique identify for an organization in the same way that a Social Security number identifies an individual. You can easily obtain an EIN within 4-5 weeks by mail or immediately by telephone or [online](#). There is no application fee.

Checking Account

- Select a bank and account that does not have a minimum balance
- Select an account that does not charge for transactions such as writing checks and cash transfers between bank accounts
- Get an interest bearing account if it does not charge fees. Some interest bearing accounts charge fees that may be more then the interest earned.
- Require two signature for checks

Savings Account

- Select a bank account that meet the above criteria
- Require two signatures for withdrawals
- For large cash balances, consider investing in a money market account or certificates of deposit to earn more interest. Make sure the chapter's cash needs can be met if there are penalties for withdrawals before the established maturity date. For example, do not buy a six month CD if you will need some of the money in four months.
- Some money market accounts charge fees if the balance is below a minimum amount. Compare the fees to the interest that will be earned to determine if it is beneficial to open this type of account.

General Guidelines for Cash Accounts

- Do not co-mingle funds with other organizations' or members' cash.
- A reconciliation of each account should be performed monthly by someone that does not have access to the cash or accounts
- Do not allow cash withdrawals from the accounts. The only withdrawals should be through checks and transfers to other chapter accounts.
- Update the signature cards at the bank when new officers are elected. Banks normally require the latest authorized signers to authorize new and/or replacement signers on your account(s). Some banks may require a copy of your election minutes.
- Certificate of deposit interest rates are sometimes negotiable. Explain you are a not-for-profit organization and ask for a higher rate.
- Bank fees can sometimes be waived if you ask the branch manager.
- Minimum balances are sometimes waived for not-for-profits.
- Many banks have a certain style of check that can be ordered for free provided you have a minimum balance.

Reserves

Chapters often wonder how much money they can have in reserve without jeopardizing their nonprofit or tax-exempt status. The IRS does not focus on a tax-exempt organization's reserves as long as the purpose of the reserves is to ultimately carry out the objectives for which the organization was granted tax-exempt status. Similarly, state regulatory agencies disregard the issue of reserves.

What is important to the IRS is how the activities that generate the excess revenue relate to the organization's exempt purposes (see more on UBIT below).

The amount of reserves may affect how members perceive the chapter's fiscal responsibility and management. For example, members may not support an increase in chapter dues if their chapter is not meeting current member needs, has no specific plans to invest the funds in future service to members or is merely holding excessive funds in reserve.

Best practice suggests that chapters should strive to maintain reserves equal to at least 50% of operating expenses. Many organizations set higher targets of 75% or even 100% of operating expenses in reserve in order to weather economic downturns and unexpected crisis.

Some chapters may choose to develop investment policies and invest their excess cash.

Investments

When choosing investment options for their excess cash, chapters must consider three key factors: risk, yield and the liquidity of funds.

A formal investment policy should be drawn up, documented and approved by the chapter's board. The people investing the chapter's money will then be bound by the policy and prohibited from making risky decisions in the hope of achieving a higher return, no matter how well-intentioned they were. In determining an investment strategy, risk is taken into consideration in terms of the chapter's fiduciary obligations and an appropriate asset allocation plan.

Investment yields vary with the degree of risk involved and the availability of funds. Savings accounts with banks pay a low interest rate, but the money is available for withdrawal at any time. A bank's savings certificates and money market checking accounts may offer slightly higher rates than a savings account, but a minimum balance or minimum deposit time may be required to earn the full amount of interest. In addition, the chapter may pay a substantial penalty for falling below the minimum balance or for withdrawing funds early.

Money market checking accounts offer greater access to invested funds and may be offered by banks and investment firms. Mutual funds, also offered by investment firms, invest in a variety of stock and bond portfolios (depending on the investor's desire for risk and return). These may provide a rate of interest that is a few percentage points higher than a money market fund, but the principal is less secure.

Before making any investment decisions, ensure the chapter has enough funds to meet its ongoing cash obligations. This analysis will become part of the permanent record surrounding the investment. In addition, take into account the maximum amount of funds insured by a financial institution offering investment vehicles.

SIM International's Investment Policy can be found in the addendum.

Internal Control

A significant loss of assets through theft or fraud could jeopardize chapter programs and publicly embarrass the entire organization. A chapter's board holds the ultimate fiduciary responsibility for the organization and is expected to exercise reasonable diligence, care and good judgment in safeguarding the chapter's assets.

To fulfill its fiduciary obligations, and to avoid potential liability for misconduct, the board must establish sound internal controls. Internal controls refer to a system of policies and procedures that minimizes the likelihood of misappropriation of chapter assets or misstatement of chapter accounts. Such a system also increases the likelihood that these offenses will be detected quickly.

Banking Issues

Every chapter needs a bank account to safeguard its money. Depositing chapter funds into an account belonging to an individual associated with the chapter constitutes poor financial management and places undue fiduciary responsibility on that person.

To open a bank account a chapter needs its own employer identification number (EIN). This nine digit number, assigned for IRS filing and reporting purposes, establishes a unique identify for an organization in the same way that a Social Security number identifies an individual. You can easily obtain an EIN within 4-5 weeks by mail or immediately by telephone or [online](#). There is no application fee.

In general, it is best if one person writes and signs checks on behalf of the chapter and another person is authorized to approve invoices – one person should not do both. Without this system of checks and balances, one person could authorize an invoice for payment, write out a check to pay the invoice, and cash the check.

Because chapters may have limited personnel resources – and the treasurer or check signer may also be the bookkeeper – two signatures on all checks are strongly recommended. This provides additional control only as long as the second check signer also examines the invoices or supporting bills before signing the checks.

Even if the treasurer is not the bookkeeper, it is recommended that two signatures be required on checks exceeding a certain dollar amount (based on the chapter's budget and desired controls for disbursements) and for transfers out of savings accounts. The potential inconvenience may be limited by appointing three or four people as authorized signatories, but only requiring two for a transaction. Under no circumstances should the treasurer "pre-sign" blank checks for future use by others.

An important method of financial control is a monthly reconciliation of all chapter bank accounts. Preparing a bank reconciliation involves reviewing the chapter's checkbook balance and the general ledger cash balances. The reconciliation verifies that these balances agree with the bank's statement of cash balances. Reconciliation is the primary method of double-checking the chapter's handling of cash receipts and disbursements during the month and exposing any errors. Someone who does not record cash receipts and disbursements should perform the bank reconciliation.

Recommended Policies and Procedures

A short manual that clearly communicates policies and procedures regarding administration, accounting, transactions and use of assets is a worthwhile investment of time and effort. Because the manual represents official policies of the chapter, the board should formally approve its contents. The manual may alleviate misunderstandings among chapter personnel and prevent conflict. It sends a message that the chapter is organized and operates effectively, efficiently and responsibly. The manual is also valuable when changes occur in chapter leadership. It is a valuable tool for volunteers in day-to-day chapter operations and it helps ensure complete and accurate financial information.

Recommended policies and procedures for handling cash receipts and disbursements:

- Safeguarding collection of cash and property
 - Issue pre-numbered receipts for all payments at the time they are received. A duplicate copy should be accounted for and a comparison eventually made between the aggregate of the receipts issued and the amount deposited in the bank
 - Ensure cash collections are under the control of two people whenever possible, particularly when issuing receipts is not practical
 - If you open mail containing payments for dues, products or services, record all payments received in a cash receipts journal (manual or automated) and note the date and the activity that generated the income. Compare daily batch totals from the journal to the daily bank deposit slips to ensure the recording and processing of all income. Payments received in the form of checks should be promptly and restrictively endorsed “for deposit only”
 - All receipt copies should be maintained in the chapter records.
 - Deposit all payments received in the bank, on a timely basis. Keep a copy of the deposit ticket and indicate where the money came from for future reference.
 - Once a month, compare the cash receipts journal to the bank deposit (this should be done by someone who does not maintain the journal or handle the deposit)
- Authorization of general disbursements
 - An approved chapter budget should provide initial control of chapter funds
 - Use purchase authorizations so that commitments of chapter assets will be known, recorded and approved. All invoices should be approved for payment by the responsible officer or committee chair.
 - Develop suggested guidelines for attaining approval of chapter expenditures. Base the dollar thresholds on budget size and desired level of control
 - Do not expend funds without a properly executed purchase authorization/check requisition form, accompanied by an original invoice that indicates the receipt of goods or services by the chapter.
 - Always require original invoices and receipts. Copies can be easily changed without being detected.
 - Require two authorized signatures on all checks that exceed \$250
 - Require that unbudgeted expenses must be presented to the board for approval.
 - Avoid paying cash for expenses out of any cash proceeds. Writing checks for all expenses will provide better documentation for future reference.

- Establish a cash disbursement journal (manual or automated) to record payment dates, payee, check number, amount of check and expense account(s) affected.
- Record all unpaid purchase commitments/invoices to reflect anticipated expenses for chapters operating on a cash basis and to accurately state chapter equity when reporting on an accrual basis
- Maintain copies of all purchase authorizations in sequential order to ensure that all transactions are recorded
- Require expense reimbursement forms, which detail expenditures and are accompanied by receipts for all expenses (A sample expense reimbursement form can be found in the addendum)

The Hand Off to New Officers

When new officers are appointed or elected, ensure the continuity of chapter operations by doing the following:

- Change signature cards at financial institutions by removing former officers and adding new ones
- If required by state law, update corporate resolution papers to reflect the names of new officers (many states allow you to do this online)
- Ensure the outgoing treasurer reconciles the chapter's checkbook balance to the most current bank statements
- Hand over financial records

Internal Control Checklist

- ✓ Separate financial responsibilities. Don't let the same person handle cash receipts and also make bank deposits. Have other members reconcile the bank accounts that do not sign the checks or make deposits.
- ✓ Require two signatures on each check. Make sure your bank is aware of this requirement. The bank will refuse to cash a check if it only has one signature.
- ✓ Consider using a check writing software such as QuickBooks. Only those authorized should have access to the software.
- ✓ Checks should only be signed when an approved invoice accompanies it. The signers should compare the payee name and the amount of the invoice. Signers should also make sure the invoice is appropriately authorized.
- ✓ The invoice should be marked "Paid" with the date and number of the check written on the invoice. This will help prevent duplicate payments.
- ✓ Use only pre-numbered checks and store unused checks in a secure place where only authorized members have access.
- ✓ Keep all cancelled checks including voided checks to account for each pre-numbered check.
- ✓ Have the bank statement sent to an officer that does not have any control over the account or money (if possible). The officer should review the statement for any unusual activity.
- ✓ Prepare monthly bank reconciliations shortly after the bank statement arrives. The reconciliation should be completed by someone who does not write or sign the checks or deposit money.

IRS requirements

Chapters incorporated under state nonprofit provisions, and thus recognized as nonprofit corporations, generally are exempt from the state and federal income taxes paid by for-profit corporations. Being nonprofit, however, does not automatically qualify such chapters for exemption from federal income taxes. Nor does an exemption from federal income taxes automatically exempt a chapter from federal and state employment taxes, local real estate taxes or state sales and use taxes.

SIM and its chapters are 501(c)(6) organizations. According to the Internal Revenue Service, a 501(c)(6) organization is a business league devoted to the improvement of business conditions of one or more lines of business. It is not engaged in any regular business typically carried on by for-profits. Trade associations and professional associations are considered to be business leagues. The mission of a 501(c)(6) organization must focus on the advancement of the conditions of a particular trade or the interests of the community.

A 501(c)(6) business league may further its exempt purposes through lobbying as its primary activity without jeopardizing its exempt status. A 501(c)(6) chapter that has a political action committee (PAC) or engages in PAC-like activities is required to disclose, in all its membership materials, the percentage of member dues devoted to such activities. At this time, SIM International is not engaging in lobbying activities.

Membership dues and contributions (including sponsorships) paid to a 501(c)(6) organization are not deductible as charitable donations, but rather can be deducted as a business expense.

A 501(c)(6) chapter is not eligible to receive charitable contributions. It is required to expressly and conspicuously disclose to donors in fund-raising solicitations (whether in written or printed form, by television, radio or telephone) that contributions to it are not deductible as charitable contributions for federal income tax purposes.

Applying for tax exempt status

To ensure federal tax-exempt status, chapters must first be organized and operated in accordance with the requirements under Section 501(c)(6) of the IRC and then must be recognized by the IRS as meeting those requirements.

[IRS Form 1024](#), *Application for Recognition of Exemption Under Section 501(a)*, documents a chapter's organization and operation. The form requests information such as a chapter's purpose and activities, articles of incorporation, bylaws and details of financial activity. Although Form 1024 is not difficult to complete, an accountant or attorney specializing in services to tax-exempt organizations should review the document before it's filed with the IRS, to ensure it includes all required information.

The filing fee for submitting the application for tax-exempt status is either \$400 or \$850 depending on gross receipts during the 4 preceding years (\$10K is the threshold). The IRS takes approximately 8-12 weeks to respond. A favorable response comes in an IRS determination letter, which indicates in writing the IRS's approval of the chapter's tax-exempt status. Every chapter should keep a copy of the Determination Letter in its permanent files. If

you can't locate it, you can obtain a copy from the IRS for a nominal fee (to make this request, use [Form 4506-A](#), *Request for Public Inspection or Copy of Exempt Organization IRS Form*).

SIM group exemption

SIM maintains a group exemption that enables its chapters to obtain tax-exempt status without filing individual applications with the IRS. Chapters wishing to be covered by the group exemption must inform SIM in writing and provide their EIN. In addition, to qualify for coverage under a group exemption, a chapter must have articles of incorporation and bylaws that mirror those of national. Each year, SIM must inform the IRS of the chapters covered by its group exemption.

To be covered under SIM group exemption, please send the following information to headquarters:

- Copy of Articles of Incorporation
- Description of the purpose and activities of the chapter (including expected sources of revenue and nature of expenses)
- Written authorization from the chapter president to be included under the group exemption, which must include:
 - Chapter name
 - Chapter mailing address, including zip code
 - Employer Identification Number of the chapter

Note that a group exemption does not relieve chapters from Form 990 filing requirements. It is the chapter's responsibility to prepare and file Form 990. Each of the chapters should provide SIM with a copy of its return.

IRS Reporting (Form 990, Form 990-EZ and Form 990-N)

Tax-exempt chapters may not have to pay federal income taxes, but they still need to [file a return with the IRS](#).

- Chapters with annual gross receipts of \$50,000 or less, must submit Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required to File Form 990 or 990-EZ*.
- Chapters with annual gross receipts of less than \$200,000 and total assets at year-end of less than \$500,000 may file Form 990-EZ, *Short Form-Return of Organization Exempt from Income Tax*.
- Chapters not meeting these qualifications must file Form 990, *Return of Organization Exempt from Income Tax*.

Annual returns must be filed with the IRS by the fifteenth day of the fifth month after the end of the chapter's fiscal year (i.e. by May 15 for chapters whose fiscal year ends on December 30). Chapters may request an extension – up to two additional three-month periods – for filing the forms, but the request must be made before the original filing deadline. The IRS may impose penalties of \$10 per day, up to \$5,000 for each day a chapter is late in filing a required return or extension request. Neither Form 990, Form 990-EZ nor Form 990-N require certification by an outside auditor, but it's a good idea to have it reviewed by an accountant who specializes in tax-exempt organizations.

The tax-exempt status of an organization that fails to file a required annual return or notice for three consecutive years is automatically revoked as of the date set for the filing of the third annual return or notice. An organization that has had its tax-exempt status automatically revoked and wishes to have its tax-exempt status reinstated is required to [apply for reinstatement](#) of tax-exempt status.

Public Inspection

Chapters filing Form 990 and 990-EZ must make these returns, as well as their IRS exemption applications (if applied for after 7/15/87), available for public inspection. The most recent three returns filed with the IRS must be available for review. Chapters are required to make copies of the returns and mail them to interested parties upon request (chapters may charge a reasonable fee to cover copying and postage costs). Chapter can eliminate the requirement to provide copies by posting the return on its website. All supporting schedules and documents filed with the return must be disclosed. Only the names and addresses of donors may be withheld.

Unrelated Business Income Tax (UBIT)

Even if its tax exempt, a chapter may have to pay federal and state taxes on income derived from a trade or business activity that is regularly carried on and is not related to its exempt purpose. Passive investment income – royalties, dividends, interest and capital gains – are specifically excluded from unrelated business income tax (UBIT).

Examples of unrelated business activity include:

- Income from the sale of merchandise that does not substantially relate to a chapter's tax exempt purpose
- Income from advertising sales, not including one-time or annual publications
- Sponsorship payments where the chapter provides a benefit in return for the payment
- Affinity programs that are "actively" promoted and sold by the chapter

In calculating UBIT, chapters are allowed to deduct costs directly associated with the unrelated business. This requires chapters to keep records in a manner that will support its business deductions. The chapter must be able to justify both the method of allocation and the reasonableness of the resulting amount.

Activities that generate unrelated business income are permissible as long as the chapter's unrelated business activities are insubstantial when compared with its exempt activities. If unrelated business activities are deemed substantial, a chapter may lose its tax-exempt status. The IRS does not define "insubstantial" so it's advisable to seek legal and accounting counsel if your chapter generates more than 1/3 of its income from unrelated business activities.

All chapters with gross income of \$1,000 or more from unrelated business activities are required to file [Form 990-T](#), *Exempt Organization Business Income Tax Return*. This form is due at the same time as the Form 990. Unlike Form 990, Form 990-T is a tax return and is not open to public inspection.

IRS Form 1099 and Form W-9

Non-profit organizations are required to file [Form 1099](#) information returns for various payments made throughout the year. These forms are to be used to report payments to individuals and partnerships paid for items such as dividends and royalties, interest paid in the course of trade or business, rent, and payments for services performed by non-employees (including professional service fees paid to attorneys (including corporations), accountants, etc), among others.

A 1099 must be prepared for payments made for any service performed on your chapter's behalf in the course of business in the amount of \$600 or more during the calendar year. You do not need to provide a 1099 to a non-profit entity or a corporation, with the exception of attorneys who are incorporated. Form 1099s must also be prepared for rents and interest you paid in the amount of \$600 or more. This does not include interest you paid to financial institutions.

In order to obtain accurate information, the IRS developed [Form W-9](#). This form is to be completed by the vendor and returned to you before you make any payments to that vendor. You will need to obtain a Form W-9 from all new vendors and from repeat vendors that have moved or changed their business entity type or Taxpayer Identification Number (TIN). If a vendor fails to return a completed Form W-9, you are required to withhold 28% of your payment(s). This "backup withholding" is required to be remitted to the IRS.

- Form W-9s should be obtained from all vendors, whether incorporated or not, as reporting requirements are scheduled to change in the future.
- The Form W-9s received should be retained on file for at least three years after you cease doing business with that vendor.
- If the recipient of the Form 1099 is a sole proprietor (owner), the identification number they provide must match their name. In most cases, they will be providing their social security number.
 - If the business operates using a "doing business as" name (DBA), the first line of the 1099 must be the owners name and the second line may reflect their DBA name.
 - It is important the name matches the social security number or federal Employer Identification Number (EIN).
 - If they do not match, the IRS will send you a letter identifying the inaccurate 1099 and may assess penalties.

Calculate the total year-end dollar amount to be reported to the Internal Revenue Service.

Failure to file the forms and failure to provide accurate account numbers will result in a penalty from the IRS for each unfiled or inaccurate return.

Federal Employer Identification Number

Each not-for-profit, regardless of whether they are under a group exemption, is required to have a federal employer identification number (EIN). The EIN is effectively a social security number for businesses regardless of whether or not it has employees. The EIN is also required by banks to open an account.

This nine digit number, assigned for IRS filing and reporting purposes, establishes a unique identify for an organization in the same way that a Social Security number identifies an individual. You can easily obtain an EIN within 4-5 weeks by mail or immediately by telephone or [online](#). There is no application fee.

If your chapter has an EIN but you have misplaced it, try one of the following to locate the number:

- Find the computer-generated notice that was issued by the IRS when you applied for your EIN. This notice is issued as a confirmation of your application for, and receipt of an EIN.
- If you used your EIN to open a bank account, or apply for any type of state or local license, you should contact the bank or agency to secure your EIN.
- Ask the IRS to search for your EIN by calling the Business & Specialty Tax Line at (800) 829-4933. The hours of operation are 7:00 a.m. - 7:00 p.m. local time, Monday through Friday. An assistor will ask you for identifying information and provide the number to you over the telephone, as long as you are a person who is authorized to receive it. Examples of an authorized person include, but are not limited to, a sole proprietor, a partner in a partnership, a corporate officer, a trustee of a trust, or an executor of an estate.

State and Local Taxes

Being exempt from federal income tax does not automatically make a chapter exempt from state income taxes, sales and use taxes, franchise taxes, personal property taxes, or local real estate taxes. These taxes, imposed by state regulatory agencies, municipalities, and school district revenue authorities, vary from one jurisdiction to another.

In general, chapters incorporated under a state's nonprofit statute are exempt from state income tax liability. However, chapters must separately apply to the appropriate taxing authorities for exemptions from franchise, personal property, real estate and sales and use taxes. Very few 501(c)(6) organizations are granted exemptions.

To be exempt from paying sales tax on items they purchase, chapters must obtain a sales tax exemption certificate from their state department of revenue. Similarly, chapters are not exempt from collecting and paying state sales tax on sales of commercial products unless they have obtained an exemption from the department of revenue of the state in which the sale is made. The respective state department of revenue can provide the applicable exemption details; each state has different regulations.

Employee or Independent Contractor? (Form W-2 vs. Form 1099)

Some people who provide services to a chapter may not be considered employees, particularly if that work does not constitute their chief source of income and if they work under minimal direction from the chapter. These workers are considered independent contractors and they pay their own employment taxes.

A chapter does not file withholding – income tax and FICA – for independent contractors. In addition, a chapter is not responsible for federal and state unemployment taxes or workers' compensation insurance for independent contractors. If the chapter pays an independent contractor more than \$600 during a calendar year, it must report the contractor's earnings to the IRS on [Form 1099-MISC](#).

Alternatively, if a worker is characterized as an employee, the chapter must withhold income and FICA tax on behalf of the employee; pay the employer's share of FICA tax, federal and state unemployment taxes, and workers' compensation insurance, and report the employees' earnings annually to the IRS using Form W-2.

The chapter must prepare Form 1099-MISC for each independent contractor to whom it pays at least \$600 annually for services, honoraria, prizes and awards. Moreover, payments for the expenses of contractors that do not require receipts for reimbursement must also be reported on Form 1099-MISC. If the chapter reimburses expenses based on legitimate receipts provided by the payee, it does not have to report the reimbursement on Form 1099-MISC.

Chapters must obtain the name, address and taxpayer identification number (social security number) for every independent contractor hired.

Typical examples of chapter contractors include program speakers, trainers, instructors, printers, mail houses, graphic designers and web site designers.

The following questions, established by the IRS, will help you determine whether chapter workers are employees or independent contractors. In general, answering "yes" to questions 1- 14 and "no" to questions 15-19 indicates that a worker is an employee, not an independent contractor.

1. Are instructions furnished regarding where, when and how worker performs?
2. Is training required by the employer?
3. Is the worker a necessary and vital part of the continuing business operations?
4. Are services rendered personally by the worker?
5. Is hiring, supervising and paying of assistants done by the employer?
6. Are hours of work set by the employer?
7. Does a continuing relationship exist with the employer?
8. Is full-time service required by the employer?
9. Is the work done on the employer's premises?
10. Is the order or sequence of services set by the employer?
11. Are oral or written reports required by the employer?
12. Are regular payments (hourly, weekly, monthly) made by the employer?
13. Are the worker's expenses paid by the employer?

14. Does the employer have the right to hire and fire the worker?
15. Is there a profit or loss possibility by the worker?
16. Does the worker have a significant equipment investment?
17. Does the worker perform services for more than one organization simultaneously?
18. Are the worker's services available to the general public?
19. Is the worker legally obligated to satisfactorily complete the job?

Audits/Reviews

The question of whether a chapter should have an audit has no absolute answer. Audits cost time and money; therefore the expected benefits must exceed those investments.

In general, an independent, periodic review of a chapter's financial control procedures and of the accuracy of its financial statements helps ensure financial stability.

A certified public audit is a series of procedures performed by a CPA. The audit is not an examination of every transaction recorded. The CPA tests a select number of a chapter's financial transactions and related internal controls, then forms an opinion on the fairness of the presentation of the financial statements for the period. An audit is usually conducted immediately after the chapter's fiscal year ends and is monitored by the board or its appointed audit committee.

An audit offers several benefits to chapters. It:

- Provides assurance that the financial statements taken as a whole are not materially misstated.
- Provides assurance that the financial statements conform to generally accepted accounting principles.
- Provides general business advice that may be useful to the board for planning and control purposes.
- Gives bankers and other creditors credible information, which can reduce uncertainties.

If the board believes the chapter's financial management is being competently handled – or if the chapter cannot afford an audit – the limited assurance provided by an independent accountant's review report on the financial statements may be satisfactory. A review report states that the accountant employed inquiries and analytical review procedures and found no need to make material modifications in order for the chapter's financial statements to conform to generally accepted accounting principles. Because a review has a smaller scope than an audit, the report does not express an opinion regarding the representation of the financial statements as a whole. Some chapters have used a member, who is not a member of the board, to conduct their financial reviews.

Engaging an Auditor

It's best to finalize selection of an auditor at least three months before the chapter's fiscal year ends. For names of license professionals in a chapter's locale, contact both state CPA societies and the American Institute of CPAs.

When assessing the qualifications of an auditor, consider the following factors:

- Interpersonal factors are important since an audit involves a working relationship between the treasurer and board and the CPA supervising the audit
- Technical qualifications such as experience working with not-for-profit organizations
- The auditor must be independent of the chapter (the auditor may not serve on the chapter's board or perform any management functions)
- Information about the CPA firm's size and personnel
- Background information on the person who will be in charge of the audit and the qualifications of supporting staff members

- References in the local business community
- Fee structure

Any audit firm receiving the request for proposal (RFP) for audit services must have a basic understanding of the chapter's mission and operations before it can decide whether to submit a proposal. To estimate the audit's complexity, a firm needs information on the size of the chapter, the qualifications of the individual(s) performing the accounting functions, the sources of revenue, the number and amounts of cash receipts and disbursements in a typical month, a copy of the most recent financial statements and a copy of the current budget. A list of the chapter's board may also be helpful, so the audit firm can identify any potential conflicts of interest.

It is valuable to request proposals from several auditors so the chapter can compare qualifications, services and fees.

Once the chapter makes its selection, the firm prepares an engagement letter for the chapter to sign. The letter documents the audit procedures and terms agreed upon by both parties.

A sample RFP for audit services is included in the addendum.

Audit Committee

Whether to form an audit committee and what composition and functions it would have are optional decisions for nonprofits. Some nonprofits have an existing finance committee perform the functions of the audit committee. Whether the role is performed within the finance committee or via a separate stand alone audit committee, the functions of an audit committee include:

- Monitoring the audit process
- Assurance of appropriate financial accounting controls
- Overseeing policies on avoidance of destruction of documents and avoidance of whistleblower retaliation.

Financial Record Retention

How long financial records should be retained depends on tax and legal considerations. IRS audits generally go back only three years, but state and local governmental agencies may require that certain documents be kept for longer periods of time to demonstrate qualification for nonprofit status.

Each nonprofit organization should have a document retention policy that is guided by the rule of reason and by the probability and dollar amount of risk involved. The decision should involve careful evaluation of the cost and burden of storing the information and the potential need to access the information in the future.

The U.S. Office of Management and Budget produced this comprehensive records retention timetable:

CORP ORGANIZATION RECORDS		CONTRACTS	
Corporate charter	PERMANENT	Leases (after termination)	7 years
Certificate of Incorporation	PERMANENT	Client contracts	10 years
IRS Determination Letter	PERMANENT	Grant agreements	10 years
Minutes of Board meetings	PERMANENT		
Annual Reports	PERMANENT	TAX RETURNS	
		IRS Form 990 & working papers	PERMANENT
ACCOUNTING RECORDS		State info returns & working papers	PERMANENT
General ledger	PERMANENT	Payroll tax returns	5 years
General journal	PERMANENT	Withholding tax statements (Form W-2 and W-9)	7 years
Cash receipts book	10 years		
Cash disbursements book	7 years	PERSONNEL RECORDS	
Bank stmts & canceled checks	7 years	Individual employee records	PERMANENT
Billings for services	4 years	Payroll book	PERMANENT
Employee travel/expense reports	4 years	Employee insurance records	PERMANENT
Expense bills (source documents)	4 years		
Petty cash records	4 years	GENERAL CORRESPONDENCE	5 years
Financial statements – annual	PERMANENT		
Financial statements – mo/qtrly	7 years		
FIXED ASSETS			
Land and buildings	PERMANENT		
Equipment in use	KEEP ON FILE		
Equip traded in on similar asset	KEEP ON FILE		
Equipment disposed of	7 years		

Insurance

SIM has secured the following insurance coverage for Chapters as well as for SIM International:

- Directors & Officers (D & O) and Employment Practices Liability (EPL)
- Commercial General Liability (for US events)
- Commercial Property (for US events)
- Workers Compensation (SIM HQ staff only)

Directors & Officers Insurance

Even the most proactive risk-management policies and procedures cannot ensure that a board member will not be implicated in a legal suit while acting on behalf of the organization. There are no laws protecting nonprofit organizations themselves from lawsuits. Indemnification clauses in the bylaws and state and federal laws may provide some protection for some causes of action, but Directors' and Officers' (D&O) insurance is an important safeguard, particularly if your nonprofit organization has employees.

Directors' and Officers' insurance is a specific insurance policy to safeguard board members and the organization for causes of action not covered by a general liability policy. D&O insurance is a separate policy from the general liability policy. An important benefit of D&O insurance is broad coverage for employment-related claims.

Here are some common questions posed by board members concerning liability insurance and appropriate coverage for their nonprofit organizations:

Are SIM chapters covered by D&O insurance?

Yes, SIM has purchased a separate D&O policy to cover all of the chapters, along with the RLF facilitators. The policy provides directors & officers liability protection, as well as Employment Practices Liability (EPL) coverage.

The D&O policy provides insurance for negligent acts, omissions or misleading statements committed by directors that results in a lawsuit filed against the organization. EPL covers employers from claims made by workers who have sued the organization for violating their legal rights as employees.

The policy provides a \$3,000,000 combined maximum aggregate limit of liability for each policy year.

Why do we need D&O insurance?

For the most part, directors' and officers' (D&O) insurance does not overlap with general insurance policies; it is an extension. One important additional benefit concerns employment-related claims. A good D&O policy should also provide coverage for employment practices liabilities, such as allegations of wrongful acts. Also, this policy should provide that the insurance company pay for all legal expenses and settlement costs on behalf of individual board members and the nonprofit itself without requiring

any advance payment by the nonprofit or board members. The policy generally covers legal fees regardless whether the lawsuit is frivolous. Without this protection, an organization may not be able to afford to defend itself and its board members.

Our board is very focused on responsible governance. Does our pro-active attitude protect us?

Even if a board carries insurance, a lawsuit can be a significant burden on staff time and morale. Responsible governance can minimize the chance of a lawsuit, however, it is impossible to anticipate every possible conflict situation. And it is wise to remember that lawsuits can be filed even against the most law-abiding citizens. The cost of defending even the most ridiculous lawsuits can be expensive.

Does the indemnification clause in the bylaws guarantee that all of my expenses will be taken care of if I get sued?

Indemnification means that an organization will rely on its own resources to pay board members' legal costs for claims that result from board service. However, the indemnification clause goes only as far as an organization's resources allow it. If there is no money to pay, there is not adequate protection. Today's legal costs can rise to quite astounding figures and the risk of losing most of an organization's assets is not very comforting. Many states permit indemnification only as provided in the organization's bylaws.

How much can we rely on the federal and state laws?

State laws vary, and sometimes fully protect an individual's nor an organization's assets. Some state laws exclude staff and direct-service volunteers and cover only board members. Other state laws only provide protection if a nonprofit has liability insurance applicable to the claim. Also, no protection can be found from employment-related acts, such as harassment or discrimination, the most often cited basis for lawsuits that name board members and executives. Furthermore, no laws protect the organization itself.

Non-profit corporation law varies from state to state. Some states have laws that protect chapters against lawsuits that name chapter leaders, some states do not. It is important for your chapter secretary to be familiar with your state's non-profit corporation laws. It is also important to have a good understanding of how D&O insurance and state law protects your chapter.

How does the Volunteer Protection Act cover my chapter?

The Volunteer Protection Act of 1997 was designed to enhance immunity from personal liability in an effort to encourage volunteerism. The Act takes effect when volunteers are acting within the scope of their organizational duties; they are properly licensed if required; the harm is not caused by willful or criminal misconduct nor gross negligence; and when operation of vehicles is not involved. It is important to note that the Act is designed to limit personal liability and not organizational liability.

General Liability Coverage

The commercial general liability policy will provide the following coverage:

- \$2,000,000 General Aggregate (Other than Products/Completed Operations)
- \$2,000,000 Products/Completed Operations Aggregate
- \$1,000,000 Personal and Advertising Injury Liability
- \$1,000,000 Each Occurrence
- \$300,000 Fire Damage (any one fire)
- \$10,000 Medical Payments (any one person)

Please note that the limit of liability is shared by all chapters. Medical Expense coverage can extend to a volunteer who is working at your direction and on behalf of your organization, but only up to \$10,000. This coverage is not intended to replace medical or accident insurance. No real or personal property coverage is provided under a general liability policy. Certificates of Insurance should be obtained from vendors and anyone providing services, including caterers, bus charters, contractors and professional service providers.

General Liability insurance is intended to respond to covered perils surrounding allegations of bodily injury or property damage to a third party, such as an invited guest, or general public; and that such injury/damage is due to the negligence of your organization. Remember – injuries to or property damage to items belonging to employees, volunteers, or members of your organization or chapter are not covered. General Liability insures *other* people against actions by *your* employees, members, or volunteers who are working at your direction and on your organization’s behalf. This policy will not respond to suits brought against one member by another. This policy is not and is never intended to be an accident or medical insurance policy for your members.

AON has provided the following examples of the types of events that are covered by the policy, those that require the completion of a special event questionnaire and may result in additional premium charges, and those that are not covered by the policy. This is not a complete list, but it should cover typical chapter events. If you have a question about whether a specific event is covered, please contact SIM headquarters.

Green Events: Events covered with no additional premium charge	
Trade shows/conferences up to 10K attendees per day	Silent auctions
Host liquor*	Dinner/Dinner Dances
Club and chapter activities	Wine tastings
Picnics with no athletic events	Group outings to sporting events (non-participatory)
Small exhibits (up to 5K sq ft & non-interactive)	Golf outings up to 144 participants
Yellow Events: Events require a special event questionnaire and will require a premium charge	
Casino nights	Concerts (no rock bands)
Fun Runs/Walk-a-thons under 10K participants	Exhibitions for fund raising
Events with children	Exhibits over 5K square feet or interactive
Red Events: Events specifically excluded. Coverage may be sought through AON with another carrier	
Biking events	Firework shows
Boat rides (including pontoon boats)	Outdoor adventures (e.g. white water rafting)
Athletic events with over 10K participants (participatory)	Bodily injury for participants of athletic events
Liquor liability (sale of liquor)*	Professional liability exposure (covered by D&O)
Workers’ Compensation	Automobile liability
Employment related practices	Physical damage

SIM will be covering the premium costs for Green events. Chapters conducting Yellow events will be responsible for completing the special event questionnaire and the additional premiums that result. Chapters conducting Red events, are responsible for securing their own coverage and paying the coverage premiums.

Managing the Risks of Alcohol at Events

Associations struggle with the risks and liabilities of serving alcoholic beverages at their events. Potential liability arises if a person, while under the influence of alcohol, gets into a fight or automobile accident, trashes a hotel room or other facility, causes a fire, or drives a vehicle into a building.

The association's exposure is from:

- serving or furnishing alcohol that causes or contributes to the intoxication of a person
- serving or furnishing alcohol to a minor or person under the influence of alcohol
- violating alcoholic beverage laws, statutes, or regulations.

However, the liability exposure varies by state and depends upon each state's legislation, court precedents, and common-law interpretations.

The state laws range widely. Alabama and Vermont apply strict liability to any server of alcoholic beverages for the harm caused by the person served. Other states uphold the common-law theory that there is no cause of action against anyone who supplies, furnishes, or sells liquor to another, because consumption of liquor is the proximate cause of harm, not the sale or furnishing of alcoholic beverages. As of July 2005, seven states—Delaware, Kansas, Maryland, Nebraska, Nevada, South Dakota, and Virginia—followed the common-law doctrine of consumption. In between are states with either dram shop or alcoholic beverage control laws that assign various levels of responsibility to the server. A few states even hold the landlord of an establishment that serves liquor liable for the actions of the tenant. However, states will universally hold servers liable for serving alcohol to a minor. The first step is to determine the liquor liability laws in the state where the event is occurring. Your insurance agent or attorney should be able to assist you.

You can manage exposure with both insurance and other risk-management techniques. Even if your association has the appropriate insurance coverage, you should use the other techniques to prevent anyone from getting hurt or bad publicity from an accident.

Insurance

Every general liability policy includes liquor-liability exclusion, but the extent of the exclusion can vary. The most common general-liability exclusion applies only if the insured is in the business of manufacturing, distributing, selling, serving, or furnishing alcoholic beverages. Most associations are not in the liquor business, unless they are operating a bar as a regular part of their operations—possibly true in the case of social clubs, veterans' organizations, and so forth. In the majority of cases, liquor-liability coverage is referred to as "host liquor liability" under the general-liability policy.

However, an amendatory endorsement may be attached and eliminate coverage for your event. For example, the Amendment of Liquor Liability Exclusion (CG 21 50) endorsement deletes the phrase "in the business of" from the liquor exclusion and expands the application of the exclusion.

The liquor exclusion applies if you:

- manufacture, sell or distribute alcoholic beverages
- serve or furnish alcoholic beverages for a charge whether or not such activity requires a license or is for the purpose of financial gain or livelihood
- serve or furnish alcoholic beverages without a charge, if a license is required for such activity.

Therefore, you have no liquor liability coverage if you charge for the liquor, either as a cash bar or as a part of the admission cost (such as wine included with dinner). You also lose coverage if the event requires a liquor license or permit. In either case, your association will need a liquor-liability policy. Your insurance agent can help interpret your policy's liquor coverage and exclusions.

Risk-Management Techniques

Having the proper insurance coverage is important, but using good risk-management techniques is even better. It's always better to prevent a loss even when you have insurance to pay for a claim.

Remember: Avoidance is an option. Some organizations have decided to forego alcoholic beverages as being contrary to their mission or an unwanted, unacceptable exposure.

If you decide to permit alcohol at your events, take the following steps to manage your risk.

- Research the state liquor laws to evaluate your exposure including the need for any licenses or permits.
- Transfer the risk to the hotel, restaurant, caterer, or professional bartenders by having them provide and serve the alcoholic beverages. Conduct your due diligence to ensure that the other entity:
 - trains its servers (through programs such as TIPS — Training for Intervention Procedures and ServSafe Alcohol)
 - has the proper insurance (general liability, liquor liability, and workers' compensation) with adequate limits. Then request a certificate of insurance and request that the entity add your association as an additional insured under its general liability and liquor liability policies. They may not agree to this, but you should ask.
- Consider the type of alcoholic beverages to be served (alcohol content).
- Avoid open bars as a means to limit consumption.
- Control the serving size of drinks. Don't serve beer in 32-ounce cups.
- Control the number of drinks a person can have at one time. Drink tickets are helpful for this.
- Close the bar at least one hour before the end of the event. (For example Major League Baseball restricts selling liquor after the 7th inning.)
- Serve food, preferably more than just hors d'oeuvres.

- Establish controls to prevent serving minors (wrist bracelets, hand stamps, restricted areas).
- Arrange with a local transportation company to provide rides for impaired guests.

Alcohol is a part of American society, but increased attention is focused on its responsible use. If your association provides alcoholic beverages at any of its events, you need to manage that risk. First learn the liquor laws and regulations applicable to the appropriate states and then make sure you have the appropriate insurance coverage. Last, and perhaps most important, is to serve alcoholic beverages in a responsible manner to minimize the chance of a guest harming himself or another person. No association needs the trauma of someone getting hurt following an event.

Creating a Treasurer's Guide

The elected treasurer has an important role in protecting and guiding the organization. He or she must work within the parameters of the budget while complying with applicable legal requirements, bylaws and policies, and risk management and investment objectives.

A Treasurer's Guide delivers important information to the treasurer at the start of the term of office. The information builds confidence and serves as a back-up should something happen at the chapter's headquarters.

Here's what might be included in a Treasurer's Guide.

Basic Financial Information

- Bank account numbers, name, location, key contacts
- Brokerage account numbers, name, location, key contacts
- CPA firm name, address, key contacts
- Insurance Coverages, accounts, insurers, key contacts
- Law firm name and key contacts

Policies on Finances

- Check Signing
- Check-writing schedules
- Investments and reserves
- Chart of accounts
- Invoice preparation
- Dues billing schedules
- Credit card handling
- Board reimbursement policies
- Staff reimbursement policies
- Access to accounts
- Financial statement schedule
- Definitions and terms
- Record retention policy
- Budget process
- Financial reserve policy and goal
- Passwords – Confidential

A sample Treasurer's Guide is included in the addendum. Every organization will have a unique guide; this serves as a template.

Sample Chart of Accounts

ACCOUNT NUMBER DESCRIPTION

ASSETS

101 Petty Cash
102 Cash – General Checking
103 Cash – Savings
104 Cash – Payroll
110 Accounts Receivable
120 Inventory
130 Prepaid Expense
131 Deposits
140 Office Furniture & Equipment
141 Computer Equipment
150 Accumulated Depreciation – Furniture & Equipment
151 Accumulated Depreciation – Computer Equipment

LIABILITIES

201 Accounts Payable
210 Federal Withholding Payable
211 FICA Payable
212 State Income Tax Payable
220 Accrued Salaries
230 Deferred Dues
290 Loans Payable

NET ASSETS

301 Unrestricted Net Assets
302 Board Designated – Unrestricted Net Assets
310 Temporarily Restricted Net Assets
320 Permanently Restricted Net Assets

INCOME

401 Grants – Foundation
402 Grants – Governmental
410 Corporate Contributions
411 Corporate Sponsorships
412 Individual Contributions
420 Dinner Meeting Registrations
421 Workshop/Seminar Registrations
422 Annual Conference Registrations
430 Dues – Regular Members
431 Dues – Associate Members
432 Dues – Student Members
433 Initiation Fees
440 Interest Income
450 Publication Sales
451 Newsletter Advertising
452 Membership Directory Advertising
453 Mailing List Sales
490 Miscellaneous Income

EXPENSES

501 Payroll

502 Employer's FICA Tax
503 State Unemployment Tax
504 Fringe Benefits
505 Workers Compensation Insurance
510 Property Insurance
511 Liability Insurance
512 D&O Insurance
520 General Administration (GA) - Rent
521 GA – Utilities
522 GA – Use & Occupancy Tax
523 GA – Telephone
524 GA – Postage
525 GA – Office Supplies
526 GA – Repairs & Maintenance
527 GA – Office Equipment Rental
528 GA – Computer Costs
529 GA – Miscellaneous Expenses
530 Board of Directors Expenses
531 Volunteer Expenses
540 Consultant Fees
541 Legal Fees
542 Audit & Accounting Fees
550 Membership - Printing
551 Membership – Postage
552 Membership – Marketing
560 Dinner Meetings – Printing
561 Dinner Meetings – Postage
562 Dinner Meetings – Marketing
563 Dinner Meetings – Food & Beverage
564 Dinner Meetings – AV Equipment
565 Dinner Meetings – Room Rental
566 Dinner Meetings – Speaker Fees
567 Dinner Meetings – Entertainment
570 Workshops/Seminars – Printing
571 Workshops/Seminars – Postage
572 Workshops/Seminars – Marketing
573 Workshops/Seminars – Food & Beverage
574 Workshops/Seminars – AV Equipment
575 Workshops/Seminars – Room Rental
576 Workshops/Seminars – Speaker Fees
580 Annual Conference – Printing
581 Annual Conference – Postage
582 Annual Conference – Marketing
583 Annual Conference – Food & Beverage
584 Annual Conference – AV Equipment
585 Annual Conference – Room Rental
586 Annual Conference – Speaker Fees
587 Annual Conference – Entertainment
590 Publications
591 Newsletter
592 Membership Directory
593 Mailing List

Set-up expense accounts only for expenses that occur frequently or are large dollar amounts.
Categorize all other expenses in the Miscellaneous Expense account or one of the other
classifications.

Sample Financial Statement

STATEMENT OF FINANCIAL POSITION

AS OF X/XX/XX

ASSETS

Cash on Hand	\$700.00
Checking Account	\$2,500.00
Savings Account	\$5,500.00
Accounts Receivable	\$800.00
Other Assets	\$0.00

TOTAL ASSETS \$9,500.00

LIABILITIES

Accounts Payable	\$2,000.00
Deferred Dues	\$1,500.00

TOTAL LIABILITIES \$3,500.00

NET ASSETS \$6,000.00

TOTAL LIABILITIES & NET ASSETS \$9,500.00

STATEMENT OF ACTIVITIES

MONTH ENDING X/XX/XX

	MONTH/YY AMOUNT	YTD AMOUNT	YTD BUDGET	VARIANCE FAV/(UNFAV)	ANNUAL BUDGET
<u>INCOME</u>					
Dinner Meetings	1,200.00	2,000.00	1,800.00	200.00	3,000.00
Workshops	500.00	1,000.00	1,000.00	0.00	600.00
Membership Dues	2,000.00	5,000.00	5,500.00	(500.00)	5,000.00
Special Events	100.00	100.00	200.00	(100.00)	500.00
TOTAL INCOME	3,800.00	8,100.00	8,500.00	(400.00)	9,100.00
<u>EXPENSES</u>					
Printing	200.00	1,000.00	750.00	(250.00)	450.00
Meeting Expense	1,500.00	2,000.00	2,500.00	500.00	2,400.00
Postage	200.00	600.00	750.00	150.00	450.00
Outside Services	150.00	450.00	500.00	50.00	600.00
Speaker Expenses	400.00	1,000.00	1,000.00	0.00	600.00
Supplies	200.00	400.00	500.00	100.00	300.00
Audit/Legal Fees	1,000.00	1,200.00	1,500.00	300.00	1,400.00
Board Meetings	100.00	300.00	250.00	(50.00)	600.00
Special Events	300.00	300.00	300.00	0.00	600.00
TOTAL EXPENSES	4,050.00	7,250.00	8,050.00	800.00	7,400.00
NET SURPLUS/(DEFICIT)	(250.00)	850.00	450.00	400.00	1,700.00

SAMPLE BUDGET

	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>TOTAL</u>
<u>INCOME</u>													
Dinner Meetings	300	300	300	300	800	300	300	300	800	200	200	200	4,300
Workshops	0	0	300	0	300	0	100	0	300	1,500	300	0	2,800
Membership Dues	0	0	500	2,000	2,000	1,000	500	0	0	0	0	0	6,000
Special Events	<u>0</u>	<u>500</u>	<u>0</u>	<u>0</u>	<u>400</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>600</u>	<u>0</u>	<u>0</u>	<u>1,500</u>
TOTAL INCOME	\$300	\$800	\$1,100	\$2,300	\$3,500	\$1,300	\$900	\$300	\$1,100	\$2,300	\$500	\$200	\$14,600
<u>EXPENSES</u>													
Printing	500	100	100	100	150	100	100	300	100	1,000	100	100	2,750
Meeting Expense	100	100	500	100	800	0	300	0	100	300	100	0	2,400
Postage	150	50	50	50	150	50	50	100	50	200	50	50	1,000
Outside Services	100	0	0	50	100	0	0	0	100	100	0	0	450
Speaker Expenses	0	0	100	0	300	0	0	0	200	400	0	0	1,000
Supplies	0	0	50	0	100	0	0	0	50	100	0	0	300
Audit/Legal Fees	0	0	0	0	700	500	0	0	0	0	100	0	1,300
Board Meetings	0	50	0	0	50	0	0	50	0	0	50	0	200
Special Events	<u>0</u>	<u>300</u>	<u>0</u>	<u>0</u>	<u>300</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>400</u>	<u>0</u>	<u>0</u>	<u>1,000</u>
TOTAL EXPENSES	\$850	\$600	\$800	\$300	\$2,650	\$650	\$450	\$450	\$600	\$2,500	\$400	\$150	\$10,400
NET SURPLUS/(DEFICIT)	(\$550)	\$200	\$300	\$2,000	\$850	\$650	\$450	(\$150)	\$500	(\$200)	\$100	\$50	\$4,200
<u>CASH BUDGET PROJECTION</u>													
Starting Balance	\$5,000	\$4,450	\$4,650	\$4,950	\$6,950	\$7,800	\$8,450	\$8,900	\$8,750	\$9,250	\$9,050	\$9,150	\$5,000
Plus: Budget Income	\$300	\$800	\$1,100	\$2,300	\$3,500	\$1,300	\$900	\$300	\$1,100	\$2,300	\$500	\$200	\$14,600
Less: Budget Expense	\$850	\$600	\$800	\$300	\$2,650	\$650	\$450	\$450	\$600	\$2,500	\$400	\$150	\$10,400
Ending Balance	\$4,450	\$4,650	\$4,950	\$6,950	\$7,800	\$8,450	\$8,900	\$8,750	\$9,250	\$9,050	\$9,150	\$9,200	\$9,200

EXPENSE REPORT



Name _____

Address _____

City, State, Zip _____

Signature _____

Shaded cells will calculate automatically in Excel.

	DATE	Description	Meals**			Lodging (Hotel include taxes)	Air & Trans (Air, Rail, Parking)	Taxi	Tolls	Other*	TOTAL
			Breakfast	Lunch	Dinner						
MON											\$ -
TUE											\$ -
WED											\$ -
THU											\$ -
FRI											\$ -
SAT											\$ -
SUN											\$ -
			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

ONE WAY MILES FROM: _____ TO: _____ X \$.555 X 2 =

<i>* Itemized Expenses or Description for "Other":</i>		
DATE	DESCRIPTION	AMOUNT

TOTAL REIMBURSEMENT

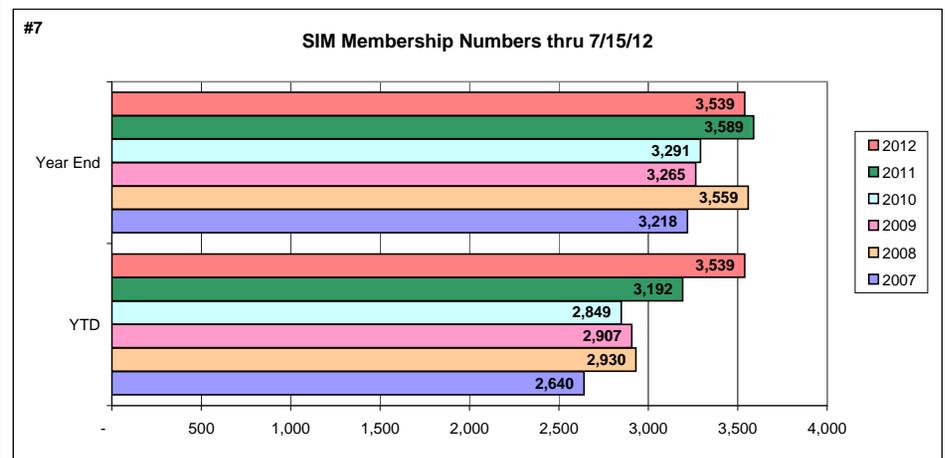
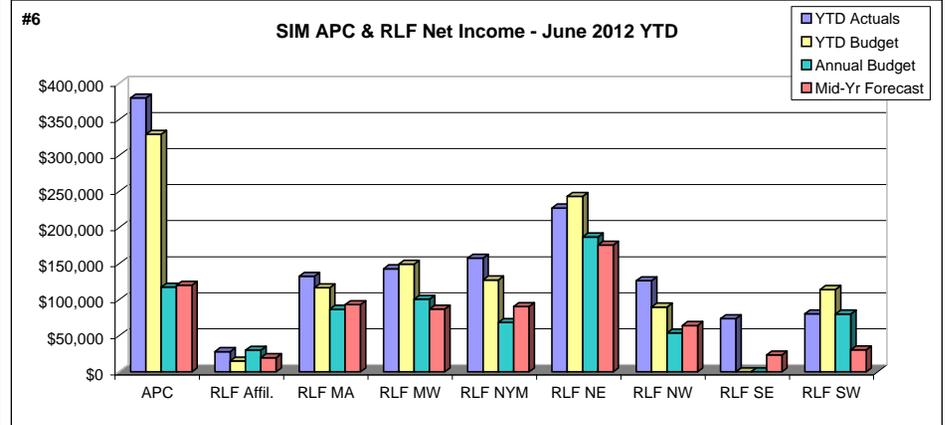
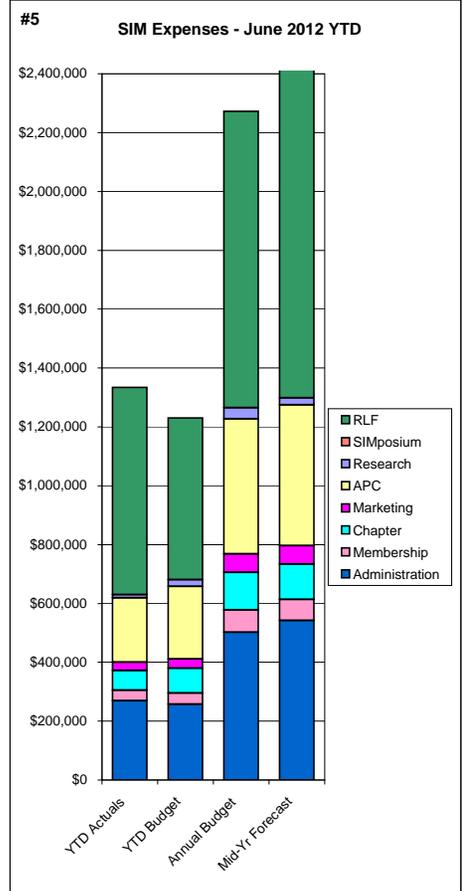
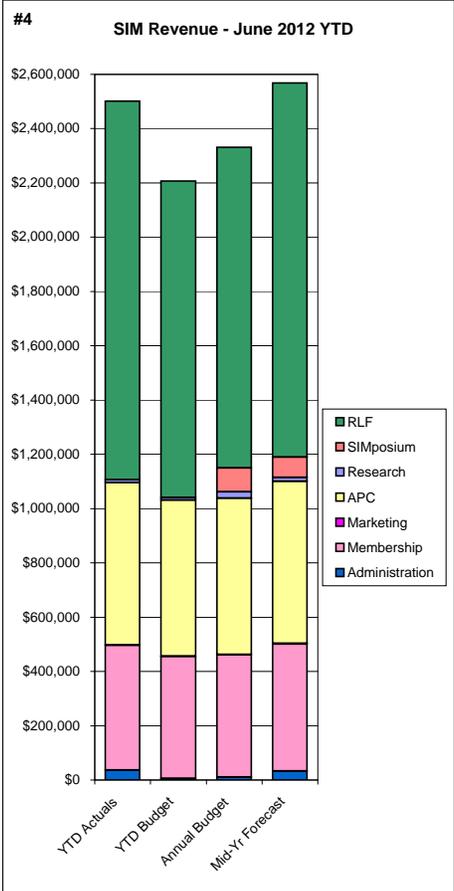
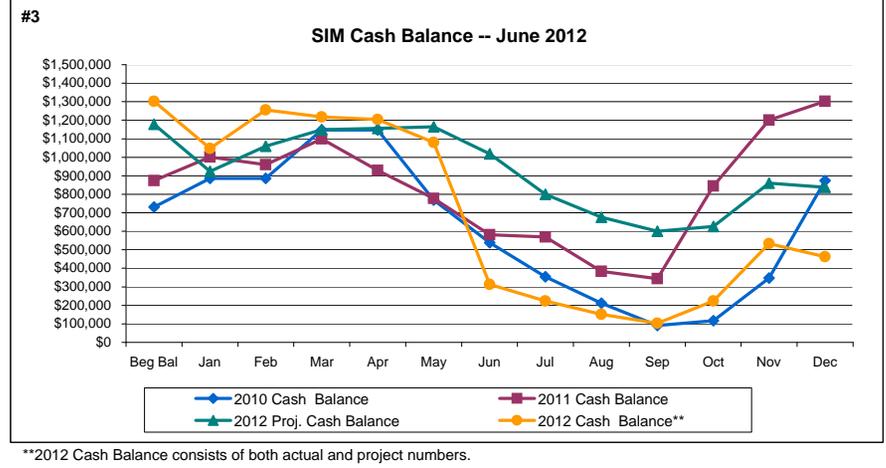
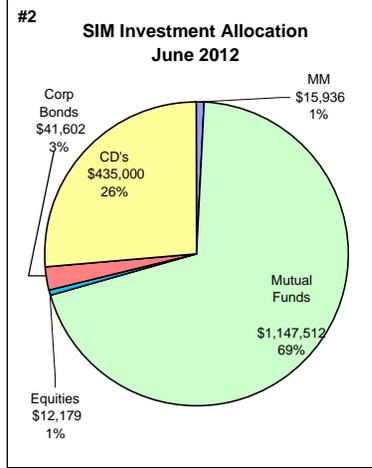
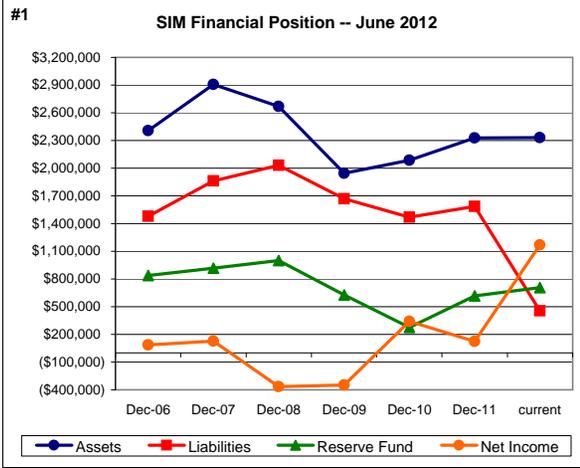
<i>*Detail all "meals with others" completely using the area below. Use separate page if necessary</i>			
DATE	Location	Attendees	AMOUNT

Please return this form and all receipts to:

SIM Headquarters
Veronica Noble
15000 Commerce Parkway
Suite C
Mount Laurel, NJ 08054

E-mail: vnoble@simnet.org
Fax: 856.439.0525

SIM Dashboard ~ June 30, 2012



Society for Information Management Investment Policy

Introduction

The purpose of this investment policy is to establish an approach for managing the Society of Information Management's (SIM) cashflow and long term funds through the following: operating, reserve and strategic funds.

Investment Manager

SIM will utilize the investment management services of an external investment advisor. The SIM International Board of Directors with input from the Board Finance Committee will select this firm. A key consideration in selecting such firm will be the individual investment philosophy of the person assigned by the firm to manage the Society's long term investment portfolio. The role of the Investment Manager is to invest the Society's funds in accordance with policies described in this document and as modified from time to time by the Society.

Investment Funds

For the purposes of managing investment risk and to optimize investment returns within acceptable risk parameters, the funds held by the Society will be divided into three separate investment pools. The three investment pools shall be called the "Operating Fund", "Reserve Fund", and "Strategic Fund".

The process for determining the dollar amount in each pool is as follows:

1. During the first quarter of each fiscal year the Secretary/Treasurer, working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members and with input from the Board Finance Committee, will determine the dollar amounts to be placed in the Operating, Reserve and Strategic Funds and secure SIM International Board of Directors approval before any transfers of dollar amounts between pools are made.
2. The current budget, quarterly forecasting and historical cash flow information will be used to determine the adequacy of cash in the Operating Fund.
3. A minimum balance will be maintained in the Operating Fund to meet the operating obligations of the organization for the current budget year.
4. If insufficient or excess cash in the Operating Fund is projected the Secretary/Treasurer working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members and with input from the Board Finance Committee, will identify a plan to replenish or reduce the Operating

Fund and secure SIM International Board of Directors approval before any action is taken.

Operating Fund

Purpose

The purpose of the Operating Fund is to provide sufficient liquidity to meet the financial obligations arising from the normal operations of the Society.

Objectives

1. Preservation of capital
2. High liquidity of assets
3. Maximize returns within constraints (see Investment Vehicles Items 1 & 2)

Investment Vehicles

1. Cash and equivalents (money market and similar vehicles)
2. Short-term fixed income
 - Limited to vehicles with maturities of 1 year or less
 - Federally insured certificates of deposit maturity value not to exceed \$100,000 per issuer and have a quality rating of 4 to 5
 - U.S. Treasury or Agency issues
 - Commercial paper
3. Longer-term fixed income vehicles and equity investments are not allowable for the Operating Fund

Portfolio Allocation

The range or target of the operating fund should be 100% cash or its equivalents.

Fund Manager

The Secretary/Treasurer working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members will administer the Operating Fund.

See Operating Fund Policy

Reserve Fund

Purpose

The purpose of the Reserve Fund is to provide a rainy day fund or a fund that is linked with the purpose of SIM's reserve policy.

Objectives

1. Invest for appreciation and income
2. Create a broadly diversified portfolio with cash and equivalents that also include exposure to both fixed income securities, equities and alternative investments

3. High liquidity of assets
4. Maximize returns within constraints (see Investment Vehicles Items 1, 2, & 3)

Investment Vehicles

1. Cash and equivalents (money market and similar vehicles)
2. Short-term fixed income
 - Limited to vehicles with maturities of 1 year or more
 - Federally insured certificates of deposit maturity value not to exceed \$100,000 per issuer and have a quality rating of 4 to 5
 - U.S. Treasury or Agency issues
 - Commercial paper
3. Longer-term fixed income vehicles, equity investments, and alternative investments are allowable for the Reserve Fund

Portfolio Allocation

The range or target of the reserve fund should be 0-10% of cash or its equivalents, 0-40% of equities, 0-40% of bonds, and 0-20% alternative investments.

Fund Manager

The Secretary/Treasurer working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members and the investment manager will administer the Reserve Fund.

Strategic Fund

Purpose

The primary objective of the Strategic Fund is to provide for multi-year growth of principal without undue exposure to risk, thereby providing a solid long term fund. Attention will be placed on enhancing the purchasing power of the Society's assets, and to maintaining and improving the financial stability of the organization over a 1 to 5 year time frame.

Objectives

1. Invest for long-term appreciation and income
2. Create a broadly diversified portfolio with cash and equivalents that also include exposure to both fixed income securities, equities and alternative investments
3. Diversification of the equity portfolio may include the following subcategories:
 - Large cap
 - Small cap
 - Foreign
 - Domestic
 - Value
 - growth
4. Maintain an acceptable level of risk for the portfolio
5. Maximize returns within the above constraints

Investment Vehicles

- 1) Cash and equivalents (money market and similar vehicles)
2. Fixed Income
 - Maturities greater than 1 year
 - Federally insured certificates of deposit maturity value not to exceed \$100,000 per issuer and have a quality rating of 4 to 5
 - U.S. Treasury notes and bonds
 - U.S. government agency bonds
 - Corporate bonds rated “A” or higher by Standard & Poor’s and Moody’s
 - Preferred stocks rated “BBB” or higher
3. Equities
 - Mutual funds, including those comprised of high yield bonds and Exchange Traded Funds(EFT)
 - Common stocks are limited to issues listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Exchange (NASDAQ).
 - Equity participation in any publicly held company shall be limited to prevent the Society from having a significant voice in management
 - No assets shall be directly invested in restricted (letter) stock, short-sale contracts, futures contracts, options contracts, or derivatives. Mutual funds may sometimes invest in these types of investments however the value of the mutual fund should not be greater than these types of investments.
 - No assets shall be committed to direct placement in real estate, commodities, commodity contracts, participation or other direct interest in oil, gas, or mineral exploration or development.

Portfolio Allocation

The range or target of the strategic fund should be 0-10% of cash or its equivalents, 30-60% of equities, 0-20% of bonds, and 0-20% alternative investments.

Fund Manager

The investment manager will administer the Strategic Fund.

Other General Objectives

Preservation of Capital

To avoid the risks associated with speculative, high-risk investments the Society is willing to sacrifice the opportunity for very large gains in favor of a well diversified, balanced, growth oriented portfolio.

“Prudent Person” Rule

The management of assets must be conducted with the discretion and intelligence that one would apply in the management of one’s own affairs. The duties of a fiduciary relating to prudence are two-fold. First, he or she must act in all matters relating to the

fund with care, skill, prudence, and diligence under circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use. Second, the fiduciary must diversify the fund’s assets to guard against the risk of large losses. These measurements will be key operating guidelines for the Fund Manager.

Performance Objectives

- 1) Rate of Return Objectives: The Fund Manager’s performance will be compared to relevant market indices, as specified below. When overall results fall significantly below those of the appropriate benchmark for one calendar year period, the Investment Manager will be viewed critically, unless unusual circumstances precipitate such results.
 - a) Each section of the portfolio will be compared to appropriate benchmarks such as:

Fixed Income	Lehman Brothers Intermediate Government Corporate Index
Large Cap	S&P 500 Index
Mid Cap	S&P MidCap 400 Index
Small Cap	Russell 2000 Index
Foreign	MSCI EAFE Index
 - b) Each portion of the equity portfolio will also be compared to an appropriate style-specific index (e.g., S&P 500/Barra Value and S&P 500/Barra Growth for the large cap domestic holdings.)
 - c) The volatility of each holding in the portfolio should be equal to or slightly greater than that of its respective index.

2) Summary of Asset Allocation

Investment & Funds	Operating	Reserve	Strategic
Cash and Equivalents	100%	0-10%	0-10%
Equities	0%	0-40%	30-60%
Bonds	0%	0-40%	0-20%
Alternative Investments	0%	0-20%	0-20%

4) Reporting

- a) Monthly statements on the current position of the portfolio are required from the Fund Manager.

- b) The Fund Manager will be required to present a quarterly performance report and a breakdown of all support and service charges to the Secretary/Treasurer and the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members.

5) Policy Review

- a) The Secretary/Treasurer, working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members and with input from the Board Finance Committee, will review the investment policy and the composition of the investment portfolio on an annual basis to ensure that the policy and the portfolio are consistent with the current mission of the Society and that it accurately reflects the current financial conditions.
- b) The Secretary/Treasurer, working with the SIM Chief Executive, Executive Director, and other appropriate Board and Management Council members and with input from the Board Finance Committee, will make recommendations for any revisions or modifications to the investment policy to the SIM International Board of Directors for approval.

Sample Request for Proposal for Audit Services

[LETTERHEAD]

Date

This Request for Proposal (RFP) is to contract an audit of the financial statements for [CHAPTER NAME] for the fiscal year ending [DATE].

The results of this audit shall be expressed in accordance with generally accepted auditing standards, which include expression of an opinion by the auditor on the fairness of the financial statements.

Your report should cover the following financial statements:

1. Statement of assets, liabilities and fund balance
2. Statement of support, revenue and expenses and changed in fund balances.
3. Statement of changes in financial position
4. The following supplementary reports as required by the management of [CHAPTER NAME]:
 - a. Schedule of investments
 - b. Schedule of fixed assets
5. Review of [CHAPTER NAME]'s accounting system and procedures including an evaluation of internal controls with written comments and recommendations, if any.

The auditor will also prepare the federal form 990.

Attached is a copy of our previous audited financial statements and our current budget. Information about our mission and related activities is included. Descriptions of our sources of receipts and funds, the number and type of disbursements, and our financial personnel are also attached.

[CHAPTER NAME] will close its books and be ready to start the audit on [DATE]. The auditor shall deliver the final audit report 10 weeks after the closing of the fiscal year.

The proposal should contain the following information:

1. Background and experience in auditing, including not-for-profit accounting
2. The size and organizational structure of the auditor's firm
3. Resumes of partner and manager staff; names and qualifications of the staff members to be assigned to our audit.
4. Statement of the CPA firm's understanding of the work to be performed, including tax and nonaudit services.
5. Fee structure, including out-of-pocket expenses, and a maximum fee.

Inquiries and proposals concerning this RFP should be received within four weeks of the date of this letter. [NUMBER] copies of your proposal should be directed to:

President/Treasurer
[CHAPTER NAME]

Treasurer's Guide

- Associations, Chambers, Nonprofit Organizations -

The organization stands ready to help the elected Treasurer you in this vitally important role. This information provides the fundamentals regarding the finances, insurance and investments. Please do not hesitate to ask any questions of staff or our financial consultants. Treat the information with confidentiality and use it for the purpose of more effective governance and financial management.

Note: The document and information is provided as a sample and template only. It is not intended to be legal, insurance or accounting advice.

Sample Treasurer's Guide

Bank Information and Contacts

Nations Bank Checking Account Number #####
Key Contact (Vice President)
Bank America
315 South Calhoun Street
Tallahassee FL, 32314
Phone - (850) 555-1924
Fax - (850) 555-1965

Money Market Account Account Number #####
Key Contact
Nations Bank
315 South Calhoun Street
Tallahassee FL, 32314
Phone - (850) 555-1924
Fax - (850) 555-1965

Brokerage Accounts and Contacts

Investment Accounts Account Number #####
Key Contact
Morgan Stanley Dean Witter
325 John Knox Road, Suite 102
Tallahassee, FL 32303
Phone – (850) 555-8700

Name and Address of CPA Firm

The organization is required to prepare a Form 990 Information Tax Return and a 990T Unrelated Business Income Tax return. The association may select any firm; currently we use. Be sure that the selection of a financial auditor is in compliance with the bylaws and the minutes reflect that the board and not the staff made the selection.

Name of Accounting Firm
3303 Thomasville Road
Tallahassee FL, 32312-2912
Work - (850) 555-6184
Fax - (850) 555-2074

Sample Treasurer's Guide

Financial Audits

Annually, the board of directors will contract with a Certified Public Accounting firm to conduct audit in accordance with Generally Accepted Auditing Standards. The executive director and the treasurer will recommend an auditor to the board of directors for approval. A copy of the audit shall be provided to the office file, treasurer and the board of directors. At the option of the board president, an audit committee may be appointed to oversee the process.

Fiscal Year

The fiscal year is January 1 through December 31.

Accounting

An accrued basis of accounting will be used.

Check Signing and Bill Processing

Checking Account

Authorized individuals who will have check writing privileges include the authorized staff, treasurer and president. The treasurer or president signs all checks over \$2,500. Checks in the amount of \$1,000 to \$2,499.99 are signed by a combination of the staff and a board office. Authorized staff in accordance with policy can sign checks less than \$1,000. Signature cards will be reviewed and updated annually by the treasurer. It is critical that checks be circulated quickly so as not to harm the organization's credit and relationships with suppliers.

Investments

The treasurer and president, in accordance with the Investment Policy and Objectives, will be responsible for determining where and when money will be invested based on current investment advice, degree of financial stability of the association, liquidity demands and available funds. The executive director may make account changes upon authorization and specific direction of the treasurer and/or president.

Coding Procedure

Invoices are stamped upon receipt. This stamp ensures collection of all-important information and also cancels the invoice for duplicate payment. The account executive is responsible for reviewing the invoice, verifying the receipt of the product or services and invoiced cost of those services. Those invoices are forwarded to the accounting department and based upon the account executive explanation assigned a budget account number.

Invoice Preparation

Once invoices are approved for payment and coded they are filed for payment. Each invoice is entered into the computerized accounts payable system. From that system all checks are produced. Photocopies of each invoice are produced to accompany the check

Sample Treasurer's Guide

to the treasurer for signature. The treasurer may retain the invoice copies for their records and return just the checks to the association office.

Check-Writing Schedule

Checks for all pending invoices will be written on or about the 20th of each month. Checks are cut throughout the rest of the month on an as needed basis, only.

Tracking System for Checks Sent to Treasurer

Copies of all invoices sent to the treasurer for signature are filed in the pending signature file. When the checks are returned from the treasurer the invoice copy is removed, the date is noted on the invoice and the invoice is filed in the paid invoice file.

Merchant Card Services (Visa/MC)

For the convenience of the members and to boost conference attendance the association has chosen to accept credit card payments. All credit card payments are processed through the organization's merchant service account.

Use of Credit Cards

Authorized staff members have credit cards to allow them to conveniently pay for association related events and needs. Most of the credit card charges relate to travel expenses, however, the cards do allow staff to pay for some expenses to save board members from having to pay and wait for reimbursement. No officers of the board have organization credit cards in accordance with the established policy.

Access of Accounting Information by Staff

Only a limited number of employees have access to the association financial records. Unused checks and accounting files are kept in a locked closet.

Access to Records/Information by Treasurer

The treasurer has access to the books and records of the association. The books and records belong to the treasurer so there is no question about the treasurer access. This can be provided upon request either as a specific summarized report or by reviewing the records themselves. The firm is responsible by contract for maintaining these records, so we ask if the treasurer wishes to review these records, to do so on our premises and make copies of documents as needed.

Financial Statement Schedule

Bank account reconciliation is completed as the bank statements are received around the first of the month. Once the reconciliation is complete, we begin to prepare the financial statements. The financial statements along with the bank reconciliation must be approved by the staff's Director of Business Affairs and then are sent to the president and treasurer of the association about the 15th of each month.

Sample Treasurer's Guide

Reading Financial Statements

The financial statements are made of two parts: the Statement of Financial Position and the Statement of Activities.

Statement of Financial Position

This statement gives the balances of the asset accounts and liabilities on a specific date. Treasurers should review the cash balances monthly looking for significant changes. The association receives a majority of the dues income in January, and then spends this money throughout the year.

Statement of Activities

This is a report of the money received and spent for the current month and for the fiscal period as compared to the budget. The first page shows the revenues. The treasurer should review the variances and determine if revenues are coming in as expected and alert the board to any corrective action that may be necessary. The next page details the expenses for the association, on this, page variances should be analyzed to make sure money is not being overspent in a particular budget line item.

Office Security

The association maintains a monitored alarm system for after-hours security. In addition, a lock box is maintained for weekly tape back-ups of the computers. Key staff members have passwords that may be recorded here to be sure they are available in an emergency from the treasurer:

Staff Person's Name _____ Password _____

Staff Person's Name _____ Password _____

Staff Person's Name _____ Password _____

Document Retention

The office maintains space at the building as well as a long-term storage facility. This facility has a heavy duty locking roll-up door and is well lit at night. The current document retention record was recommended by a CPA and adopted by the board as a policy. It is attached.

Insurance Coverages

The insurance is purchased from a locally reputable firm knowledgeable in nonprofit coverages.

Agent: _____

Firm: _____

Phone: _____

Address: _____

Sample Treasurer's Guide

Liability Insurance

The Executive Director will negotiate and recommend Liability Insurance to the Executive Committee for approval. This insurance should be sufficient to protect the Association's assets from general exposures.

Directors and Officers Insurance (D & O)

The Executive Director will negotiate and recommend Directors and Officers Insurance to the executive committee for approval. This coverage should protect the Board of Directors and the Executive Director from liability and legal defense costs associated with the decisions of the Board of Directors.

Convention Cancellation Insurance

The Executive Director will negotiate and recommend Convention Cancellation Insurance to the Executive Committee for approval. This coverage should protect the Association in case of cancellation of the Annual Meeting.

Policy on Non-Dues Income

The activities in which the Association and its committees engage to generate non-dues income shall further the association's objectives and functions, and shall not be in conflict with the association's bylaws, policies, mission or vision statements. Non-dues income shall not add risk to the organization. The objective of the organization is to have an approximate ratio of 50 percent dues income and 50 percent non-dues income. Examples of non-dues revenue include interest, advertising, sponsorship, education, registration, affinity/endorsed programs and trade show income.

Budgeting

The treasurer develops and prepares an annual operating budget to be presented to the board of directors, in conjunction with the executive director. The board of directors then accepts and/or amends the budget. The process is started about 90 days prior to the start of the new fiscal year. The board of directors may amend the budget during the fiscal year.

Unbudgeted Expenditures

Unbudgeted expenditures less than \$2,500 may be made without the approval of the board of directors. Any unbudgeted expense higher than \$2,500 must be approved by the board of directors. The president and treasurer must be notified as soon as possible about any significant unbudgeted expenditure.

Membership Report – Annual Meeting

It is the responsibility of the treasurer to annually publish a financial report, which shall include a breakdown of revenues and expenses. The treasurer should ask staff to publish an article in the newsletter reporting those figures. The last year-end financial statement is available to members upon request.

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Public Records

If anyone requests a copy of the organization's Form 990 Federal Information Return, the president and treasurer shall be notified. All such requests should be in writing and accompanied by a \$20 reproduction and handling charge. The IRS requires that the last three years of federal tax returns, the IRS letter of determination, and the IRS application for tax-exempt status be made available to any person making the request. Members of the board receiving an inquiry must advise staff of the request on the same day the inquiry is received.

Reserves

It is a policy of the organization to maintain a minimum reserve equal to 50 percent of the annual operating budget (i.e. 50% of the current budgeted income.) The long-term goal is to have an amount equal to 100 percent of the operating budget set aside in reserve. Reserves shall be invested in accordance with the policy on "Investments and Objectives." Under the current (50%) policy, the funds may not be withdrawn without approval of the executive committee.

Reimbursement of Board Expenses

A form is provided to board members at each meeting for reimbursements of travel related expenses. Receipts, with the exception of reasonable gratuities, must document all costs. It is requested that the form be submitted to the office within 30 days of the meeting, and not later than 90 days. With few exceptions, no reimbursement can be made from one fiscal year to another. Spouse travel costs are not reimbursed.

Investments

The treasurer and president, in accordance with the Investment Policy and Objectives, will be responsible for determining where and when money will be invested based on current investment advice, degree of financial stability of the Association, liquidity demands and available funds. The executive director may make account changes upon authorization and specific direction of the treasurer and/or president.

Investment Policy and Objectives

The objective of the investment program is to obtain the maximum possible return on organization funds while assuring adequate protection of invested assets. Because organization is a non-profit organization, investments should not be designed for speculation. It must be recognized, however, that all investments carry with them some degree of risk, not only as to the safety of the principal itself, but also with regard to the inflationary erosion which occurs from failure to achieve an adequate return on invested assets.

The Investment Policy segregates funds into two categories; Operating fund, Reserve fund and Cash and Investment Categories.

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The Operating Fund

Purpose - To provide sufficient cash flow to meet the financial obligations.

Objectives – Liquidity, preservation of capital.

Dollar Range - 10-15% of annual revenue not including the annual meeting revenue.

Maturity - Limited to one year or less.

Allowable Investments - Checking accounts in federally insured banks and Savings & Loans; Money Market Funds which invest in government back securities; Federally-Insured Certificates of Deposit.

The Reserve Fund

Purpose - To improve the return on funds held for expenditure over the next one to five years, while managing investment risk.

Objectives - Preservation of capital; Liquidity; Optimize investment return within a one to five year time frame.

Dollar Range - Amount necessary to overcome any expected cash flow deficiencies for the next three years as well as an amount to cover an unexpected association need.

Maturity - From one to three years.

Allowable Investments - FDIC insured Money Market Accounts; Money Market Funds which invest in government back securities; Federally-Insured Certificates of Deposit.; Direct Obligations of the U.S. Government.

Prohibited Investments - Corporate notes with a minimum rating of investment grade by one rating service.; Corporate Securities; Private Placements; Letter Stock; Derivatives; Securities from issuers which have filed for bankruptcy; Commodities or commodity contracts; Short sales; Margin transactions; Option trading; any speculative investment activities.

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Insurance Coverages - Descriptions

General Liability Coverage

This is typically the "core" coverage for a nonprofit. The most common occurrence covered by the policy is "slip and fall." Depending on the extent of the general liability coverage purchased, commercial general liability insurance may provide coverage for a wide range of negligent acts, which result in bodily injury, personal injury, advertising injury or property damage to a third party. It does not cover damage to property under your control.

Directors and Officers Liability Coverage

The key distinction with directors and officers liability is that it is intended to cover wrongful acts that are "intentional" as opposed to "negligent." This is because directors and officers insurance is designed to cover actions and decisions of the board of directors. These actions may be in error and wrong, but they are, nonetheless, "intentional" acts. Most other types of insurance do not cover "intentional" acts. Among the items a good directors and officers policy should include is broad coverage for all types of employment related actions, including wrongful termination, harassment, discrimination, failure to hire, etc. It should also pay defense costs as they are incurred, not on a reimbursement basis.

Employee Dishonesty – Fidelity Bond

This covers loss resulting directly from one or more fraudulent or dishonest acts committed by an employee whether acting alone or in collusion with others. Losses due to employee dishonesty are different from other losses making it difficult to determine the amount of insurance to carry. Loss of unrecorded assets could result from the following activities: theft from a cash register; pocketing money for which a receipt has not been given; padding of expense accounts; overcharging of fees for services; and walking off with assets.

Liquor Liability Coverage

Depending on the extent of the liquor liability coverage form, this insurance may apply to claims resulting from selling, serving, or furnishing alcoholic beverages. "Host liquor liability" coverage is provided in most commercial general liability coverage forms, and some nonprofits buy stand alone liquor liability coverage when the argument can be made that they are in the business of selling, serving, or furnishing alcoholic beverages. The need for liquor liability coverage is frequently misunderstood, and an insurance broker can be of assistance to determine if the coverage is needed or not.

Meeting Cancellation Coverage

Covers the loss of revenue or expenses due to a cancellation, curtailment, postponement or abandonment of an event due to civil disturbance, strike, weather or fire, for example. It may cover moving to an alternative premises, postponing or abandoning an event.

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Policy may cover the extra expense of the normal costs to conduct the event in order to continue the normal operations of the show or meeting.

InsuranceCoverages.doc

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Record Retention Policy (sample)

Description	Retention Period
Accident Reports and Claims (settled cases) (1)	7 years
Accounts payable ledgers and schedules (2)	7 years
Accounts receivable ledgers and schedules (3) 7 years	
Audit reports of accountants (4)	Permanently
Bank reconciliations (5)	2 years
Capital stock and bond records; ledgers transfer registers, stubs showing issues, record of interest coupons, options, etc. (6)	Permanently
Cash books (7)	Permanently
Charts of accounts (8)	Permanently
Checks (canceled but see exception below) (9)	7 years
Checks (canceled but for important payments, i.e., taxes, purchases of property, special contracts, etc. (checks should be filed with the papers pertaining to the underlying transaction) (10)	Permanently
Contracts and leases (expired) (11)	7 years
Contracts and leases still in effect (12)	Permanently
Correspondence (routine) with members, customers, or vendors (13) 1 year	
Correspondence (general) (14)	3 years
Correspondence (legal and important matters only) (15)	Permanently
Deeds, mortgages and bill of sale (16)	Permanently
Depreciation schedules (17)	Permanently
Duplicate deposit slips (18)	2 years
Employee personnel records (after termination) (19) 3 years	
Employment applications (20) 3 years	
Expense analyses and expense distribution schedules (21)	7 years
Financial statements (end-of-year, other months optional) (22)	Permanently
General and private ledgers (and end-of-year trial balances) (23)	Permanently
Insurance policies (expired) (24)	3 years
Insurance records, current accident reports, claims, policies, etc. (25)	Permanently
Internal audit reports (in some situations, longer retention periods may be desirable) (26)	3 years
Internal reports (miscellaneous) (27)	3 years
Inventories of products, materials and supplies (28)	7 years
Invoices to members and customers (29)	7 years
Invoices from vendors (30)	7 years
Journals (31)	Permanently
Membership applications (32)	3 years
Minutes of directors and committees, including by-laws and charter (33)	

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Permanently	
Notes receivable ledgers and schedules (34)	7 years
Option records (expired) (35)	
7 years	
Payroll records and summaries including payments to pensioners (36)	7 years
Petty cash vouchers (37)	3 years
Physical inventory tags (38)	3 years
Plant cost ledgers (39)	7 years
Property appraisals by outside appraisers (40)	Permanently
Property records-including costs, depreciation reserves, end of year trial balances, depreciation schedules, blueprints and plans (41)	
Permanently	
Purchase orders (except purchasing department copy) (42)	2 years
Receiving sheets (43)	2 years
Requisitions (44)	2 years
Sales records (45)	7 years
Savings bond registration records of employees (46)	3 years
Scrap and salvage records (inventories, sales, etc.) (47)	7 years
Stock and bond certificates (canceled) (48)	7 years
Stockroom withdrawal forms (49)	2 years
Subsidiary ledgers (50)	7 years
Tax returns and worksheets, revenue agents' reports and other documents relating to determination of income tax liability (51)	
Permanently	
Time books (52)	7 years
Trade mark registrations (53)	Permanently
Voucher register and schedules (54)	7 years
Vouchers for payments to vendors, employees, etc. (includes allowances for reimbursement of employees, officers, etc. for travel and entertainment expenses) (55)	
7 years	

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