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# Chapter Financial Management Guide



*The first edition of this Chapter Financial Management Guide won an Award of Excellence in Finance & Administration from the American Society of Association Executives (ASAE).*

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*12th Edition*

This *Chapter Financial Management Guide* can be used as a reference manual by chapter officers, and is designed to complement the *Chapter Leader Guide*.

This handbook will serve as a valuable resource for chapter treasurers—providing practical, “how-to” suggestions for organizing chapter finances, information on filing chapter tax returns, and samples of forms and financial worksheets that can be adapted to meet individual chapter needs. Ideally, chapter treasurers will pass this manual on to their successors, helping to facilitate a smooth transition when chapter financial responsibility changes hands.

If you have any comments or questions related to this manual, or to chapter financial management, please contact the CPCU Society, 720 Providence Road, Malvern, PA 19355, or call (800) 932-CPCU ext. 2731.

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**For more information** or to download current federal forms, visit the IRS Web site at [www.irs.gov](http://www.irs.gov).

# Chapter Legal Structure and Overview

## **The Chapter as a Financial Entity**

### **Incorporation**

It is strongly recommended that all chapters be incorporated. Incorporation provides protection to the directors, officers and general membership in case of an adverse judgment in a liability suit. (See Figure 1, page 7). The incorporated chapter must, of course, comply with the state laws related to tax or other filings. Refer to the *Chapter Leader Guide* for information on forming a chapter, etc.

### **Tax-Exempt Status**

The CPCU Society is tax-exempt under Section 501(c)(6) by Treasury Department letter of determination. However, the Society's exemption does not cover chapters. New chapters must obtain their own exemption from the IRS as soon as practical upon approval of their formation by the Society's Board. Because the law pertains to non-profit organizations, incorporated or not, all existing chapters should already have applied for and received an exempt status and Employer Identification Number. The latter is needed for bank account identification and identification on any IRS correspondence, even if the chapter has no employees. If your chapter cannot locate a copy of its 501(c)(6) Determination Letter, you can contact the Society's finance and administration staff to determine if headquarters has a copy. If headquarters doesn't have it, you can call the IRS EO Customer Account Services at (877) 829-5500 and request a copy of your determination letter.

If you are not sure of your employer identification number (EIN) contact the IRS Business and Specialty Tax Line at (800) 829-4933. Once you receive your copy, send a copy to Society headquarters for your chapter's permanent file.

### **General Financial Recommendations**

Chapter dues structures and other sources of income should be adequate to finance chapter activities and even create surplus to help finance "lean" years.

Chapter officers have asked what the IRS considers as a "reasonable" level of surplus. Generally, amounts up to a year's operating budget will not usually be deemed excessive.

### **Accounting**

Most chapters use a simple cash basis method of accounting and this is ordinarily quite adequate. The Society has no defined system for the local chapters' accounts. The outgoing treasurers should review both the chapters' accounts and the Society's membership accounting system with their successors and pass along this guide.

## **Chapter Dues — Billing, Collection, Processing and Payment to Chapters**

The Society invoices dues in late October, and sorts the totals collected into Society membership and chapter dues.

### **Expected remittance dates:**

- February (about 80 percent of dues income)
- May
- September

Chapter dues will be remitted to chapters via direct deposit to chapter checking accounts and a notification e-mail will be sent. To report bank account information changes, See Exhibit 1, ACH Credit Authorization Agreement. For further information contact the Society's staff accountant at (800) 932-CPCU, ext. 2732.

Chapters have access to online reports showing paid and unpaid members through the CPCU Society's Web site, [www.cpcusociety.org](http://www.cpcusociety.org).

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**Exhibit 1**

**ACH CREDIT AUTHORIZATION AGREEMENT**

CPCU Society  
720 Providence Road  
Malvern, PA 19355

Please fill out the following information to begin receiving payments directly into your bank account. These transactions will be sent to the bank account indicated below through the automated clearing house (ACH) system. If you have any questions about this service, you may contact Karen Miles, 1-800-932-2728 x2732 or [kmiles@cpcusociety.org](mailto:kmiles@cpcusociety.org).

CHAPTER NAME: \_\_\_\_\_

BANK NAME \_\_\_\_\_

BANK ACCOUNT NUMBER \_\_\_\_\_  
(Please attach voided check)

BANK ROUTING NUMBER \_\_\_\_\_  
(9 digit number preceding account no.)

CHAPTER OFFICER SIGNATURE \_\_\_\_\_

PRINT NAME \_\_\_\_\_

DATE: \_\_\_\_\_

Send completed form to:

CPCU Society  
Attn: Karen Miles  
720 Providence Road  
Malvern, PA 19355  
FAX 610-251-2780

## Chapter Organizational Structure

### Corporate Format and Alternatives

Available legal structures —

- Corporation.
- Unincorporated association.

Advantages of incorporation:

- Officers, directors, members and employees who act in good faith are, in general, not personally liable for association liabilities.
- There is a designated line of authority and organizational structure.
- The organization must operate within a carefully conceived system of state law. Unincorporated associations, which are rarely treated in detail by state statutes, are subject to much greater legal uncertainty.
- Incorporation permits perpetual existence.

### Procedures for Incorporation

(Also refer to the *Chapter Leader Guide* for sample forms.)

Corporate Charter

Articles of Incorporation —

- Filed with state government official (usually secretary of state).
- Must meet requirements of state law/Internal Revenue Code. Should be as general as possible.
- Becomes the basic governing document of the corporation and is subordinate only to state law.
- Bylaws — must be included with exemption application but are not usually filed with state authorities. They contain more specific rules regarding membership, election of officers and directors, and the conduct of other corporate affairs. When revising bylaws, send a copy to Malvern for review and to help you obtain CPCU Society Board of Director approval.

### Other Formalities

- Corporation must have a registered agent in state of incorporation; principal office may be elsewhere.
- Corporation should obtain certificate of authority to conduct business in each state where it regularly carries on business.
- Annual reports should be filed in state of incorporation and in states where certificates of authority are granted.
- Corporation should obtain a corporate seal and minute book to maintain corporate charter and minutes of Board of Directors and membership meetings.

### Unincorporated Associations

- Individual liability of members is possible.
- It is difficult to establish existence as an entity.
- It must file tax returns.

**Figure 1:** Chapter Organizational Structure

# Financial Management and Responsibilities

## **Fiduciary Responsibility**

A chapter officer or director has a fiduciary relationship in which one person authorized another to act on his or her behalf in business dealings with others. The relationship is called fiduciary because of the high degree of trust and confidence involved. As a leader of a CPCU Society chapter, you have a fiduciary relationship with your membership. The bylaws provide you with express and specific authority to act on behalf of your membership to provide the results for which the chapter exists.

The fiduciary duties imposed on a chapter leader are the following:

- (1) Loyalty.
- (2) Obedience.
- (3) Reasonable care.
- (4) Accounting.
- (5) Providing information.

A fiduciary must account properly to its membership for the funds collected and the use of same for accomplishing the objectives and plans of the chapter.

The elected leaders have a duty of fiscal management, paying expenses from the budget as approved, preparing regular financial statements for the chapter, and auditing the records and accounts of the chapter that are entrusted to the treasurer.

## **Duties of the Chapter Treasurer as Chapter CFO**

The treasurer, as the chief financial officer of the chapter, is responsible for all aspects of chapter accounting, tax and other financial matters. Responsibilities of the chapter treasurer include the following:

- Meet with the outgoing chapter treasurer to review financial records, checking accounts and investment accounts.
  - Verify the accuracy of all accounts and completeness of records received from the outgoing treasurer.
  - Obtain new signature authorization cards for checking and investment accounts, and file cards with the financial institution(s). Require two signatures of chapter leaders
- on all checks. (This is not always practical depending on logistics and volume of chapter spending.)
- Provide Society headquarters with current bank information so that payments to chapters via direct deposit are processed timely and accurately.
  - Meet with a banking officer to establish a working relationship.
  - Review past chapter income and expense accounts. From the chapter officers, obtain financial goals for the year and prepare a proforma budget based on anticipated chapter programs.
  - Work with chapter leaders or the Budget Committee to finalize the estimated program costs and budget for the year.
  - Verify the accuracy of invoices or other expense statements before issuing checks. Pay all bills due promptly, obtain approval if not in the budget and obtain appropriate signatures on checks.
  - Classify incoming funds by function or income category and make deposits regularly in the appropriate accounts.
  - Reconcile member dues payments received from headquarters with the new chapter membership list.
  - Prepare regular financial statements for the chapter, including the income and expense statement and a balance sheet.
  - Prepare and file chapter tax returns by the due date.
  - Have checking account statements reconciled and signed by two chapter leaders, or if not practical, by at least one other officer.
  - Have all financial statements prepared and balanced, and all financial records in order, before turning responsibilities over to a successor.

## **Official Records**

All chapters should have a permanent chapter document file that is passed along from treasurer to treasurer each year. The permanent file should include, at minimum, the following documents:

- IRS application for exempt status.

- IRS exempt determination letter.
- Federal tax ID number.
- Bylaws, including any amendments.
- General ledger with annual financial statements.
- Tax returns (at least four years).
- Other documents that are unique to your chapter.

Every taxpayer (whether a not-for-profit organization or a taxable organization) is required by law to maintain adequate accounting records to properly determine the financial results for each year. At minimum, the records should be kept until the statute of limitation for the tax return expires. For federal income tax purposes, the general statute of limitations is three years after the return due date, including any extensions. Advisors differ on this retention period. Some advisors say to hold tax returns for at least five years, some say 10 years, and some say permanently. These guidelines recommend that you at least adhere to the minimum requirement of the above three-year general statute of limitations.

The retention guidelines summarized below are broken down into three categories. A short retention period of three years; a mid-term period for a retention of seven years; and a permanent retention.

*Short-term* — bank deposit slips, bank reconciliations, general correspondence, deposit slips, petty cash records, remittance statements, chapter officer travel records/reimbursements.

*Mid-term* — bank statements, paid and canceled checks, personnel records, payroll records, W-2 forms, 1099 independent contractor forms, invoices paid to you and invoices you paid, accounts payable and accounts receivable ledgers, investment records.

*Permanent* — year-end financial reports, articles of incorporation, general ledger, adjusting year-end journal entries, any property deeds, Board of Director minutes,

tax returns (you may not wish to save as permanent category), 1024 application for IRS exemption status, IRS tax exemption notification letter, SS-4 form with chapter tax ID number, bylaws, and any other important documents that are unique to your chapter.

The above guidelines should be sufficient for any size chapter retention program.

## **Budget and Planning Process**

### **Monitoring — Role of the Budget and Audit Committees**

- The chapter treasurer should provide timely financial reports so that a budget committee or the chapter officers can monitor expenditures, comparing them to the budget and assuring that funds are not being spent for items that were not preapproved or approved for payment by specific action of chapter leaders.
- The Audit Committee (if the chapter has one) reviews the financial records to assure proper handling, including the quality of record keeping and bookkeeping, and either performs or engages an outside auditor to perform an annual audit. Chapters with annual gross receipts in excess of \$50,000 should consider using outside, independent auditors. The audit scope varies depending on chapter size, but should include most of the following on a sampling basis:
  - Verify the accuracy of the financial statements.
  - Verify bank balances and statements reconciliations.
  - Determine that all checks have been accounted for.
  - Determine that all deposits and transfers between accounts are promptly made.
  - Review the supporting documentation for expenses paid.
  - Verify the completeness of chapter permanent records and tax reports, including the EIN (employee identification number), IRS Exemption Letter, incorporation papers, chapter charter, bylaws and tax returns.

- Report any irregularities or errors to the chapter leadership.
- Recommend to the chapter leadership any procedural changes needed for the continued security of chapter funds or to improve financial operations.
- The Society's vice president of finance and administration is available to meet with chapter treasurers to review the system being used and help you meet your fiduciary responsibilities.

## Budgeting

Once the planning process has been completed, a budget needs to be developed. This is a function that can either be done as a team or by the treasurer with input from the chapter president, etc. The final budget should reflect the planned activities for the upcoming fiscal year.

- A sample budget template is included in the appendix. The template is based on the Circle of Excellence program so that planned activities and programs are aligned with the Society's Strategic Plan.
- Review income and expenses for the prior two years, classifying receipts and disbursements by function or activity.
- Identify items that are not recurring in nature, and that might not be purchased every year.
- Estimate normally recurring income and expenses for the coming year, and adjust for anticipated increases or decreases because of changes in the number of members, meeting costs, meeting or activity frequency or other anticipated changes.
- Create plans for new programs, activities or expenses in the coming year that were not included in the prior-year financial statements.
- Establish a budget based on all of the foregoing factors and obtain approval from chapter leadership.
- Compare actual income and expenses with the budget at regular intervals to determine if adjustments or changes in program plans will be required.

- Prepare final budget and financial statements or other reports for the year end, and review with incoming treasurer to assure a smooth transition.

## Cash Management

- Surplus Funds.
  - Chapters should attempt to accumulate a prudent reserve of cash as surplus, to allow for the conduct of normal activities and prompt payment of expenses as they are incurred.
  - The IRS generally allows tax-exempts to accumulate a surplus equal to about one year's anticipated expenses without questioning the reason for the surplus.
- Checking Accounts.
  - Checking accounts are used for immediate, short-term chapter needs.
  - Appropriate balances will be determined by the individual chapter's spending pattern and short-term needs.
  - The appropriate balance will fluctuate throughout the year, depending on seasonal expenses and income.
  - Interest-bearing checking accounts and money-market accounts with check-writing privileges may be used at the discretion of the chapter leadership.
- Short-Term Investments.
  - Cash greater than immediate, short-term needs should be kept in interest-bearing FDIC insured accounts with relatively short maturities for better timing of needed funds for infrequent expenses.
  - Certificates of deposit (CDs) or short-term government bonds with maturities of 30, 60 or 90 days, or even six months or one year, may be used.
- Long-Term Investments.
  - Money not needed for more than one year that is being accumulated for long-term projects (e.g., to have funds available when needed to host a special meeting, etc.) should be invested in long-term instruments.
  - Longer-term instruments may include CDs with maturities of a year or more,

intermediate-term government bonds, government guaranteed mutual funds or treasury bonds.

- Chapters normally should not invest in equities, uninsured or unsecured investments.
- The current FDIC limit of \$250,000 is set to expire as of Jan. 1, 2013 and will revert back to \$100,000.
- Maturities should be matched to the time when the funds will be needed.
- “Quality” of the investment—i.e., the security of the instrument or institution that issues it—is always paramount.
- Always obtain approval of the chapter leadership for any investment.
- Require at least two signatures for all negotiable instruments or changes in accounts or institutions.\*
- Outgoing and incoming officers should both be responsible for verifying that new signature cards for all accounts are completed every year.

**\*Note:** Many chapters have not been able to apply the two-signature rule because of logistics. You may wish to use one signature up to \$XX, and two signatures over that amount.

### **Reporting Payments to Instructors and Others**

If you make payments to independent contractors such as instructors and clerical help, you may be required to report these payments to the Internal Revenue Service. Form 1099 MISC is used to report payments that are, on a calendar year basis, at least \$600. You should obtain a W-9 Form from all persons to whom you are making payments. This W-9 Form provides you with the name, address and social security number of the individual. It also tells you whether he or she is exempt from withholding tax on the payments that you make.

On or before Jan. 31, you are to provide those persons who are paid at least \$600 a 1099 MISC form. Then on or before the end of February, you are to summarize those 1099s on a Form 1096 and remit copies to the federal

government with the accurate information provided to you on Form W-9. There are penalties for failure to file these returns, and penalties for providing inaccurate information.

Should you need additional advice, you can access the Internal Revenue Service Web site at [www.irs.gov](http://www.irs.gov) for information about the rules for filing 1099 forms for payments made to independent contractors, or call the CPCU Society office at (800) 932-CPCU, ext. 2731.

Although many IRS forms may be downloaded from the IRS Web site, Forms 1099 and 1096 must be ordered directly from the IRS. Visit [www.irs.gov/formspubs](http://www.irs.gov/formspubs) to order forms, or call (800) TAX-FORM.

### **Chapter Insurance**

The CPCU Society maintains five insurance programs for Society chapters:

- (1) Commercial General Liability.
- (2) Employee Dishonesty Coverage Form A–Blanket.
- (3) Not for Profit Association Professional Liability.
- (4) Non-Owned and Hired Automobile Liability.
- (5) Commercial Umbrella Liability.

Coverage is purchased by the Society, and the chapters are assessed their share of the premium. This assessment is deducted from chapter dues prior to refund from the Society office. Each chapter is provided a “Certificate of Insurance” on an annual basis.

### **Special Events**

Chapter officers are reminded that the coverage does have limitations. Contact the Society's vice president-chapter and professional development at (800) 932-CPCU, ext. 2716 to ascertain if additional coverage is needed if the chapter is planning an unusual event such as:

- Chartering or use of watercraft, aircraft.
- Performing service work.
- Working on property of others.

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### **Paid Administrators or Paid Instructors**

Chapters' insurance coverages are available only to volunteers or employees. Paid administrators or instructors, who are independent contractors, are not covered in the capacity for which they are being paid. The chapter would be protected for the activity, but not the independent contractor.

# Why Do We Have Reserve Funds?

## **Surplus Funds**

The IRS grants tax-exempt status to chapters based on the purpose contained in the chapter's constitution or articles of incorporation. Therefore, unreasonable accumulation of funds not required to carry out the purpose of the chapter are considered excess surplus and, as such, may become cause for revocation of the chapter's tax exemption.

## **Additional Information**

The Society has access to counsel for any problems that may arise from the standpoint of federal taxes. Any major problems that may be encountered with the IRS should be referred to the Society's vice president – finance and administration at (800) 932-CPCU, ext. 2731 for further counsel as deemed appropriate. If the chapter is contacted by the IRS for an audit, please contact the Society office.

The following excerpted article from the Feb. 28, 1992, issue of *Association Trends* also discusses surplus funds:

### **Why do we have “reserves”?**

*by Jill Martineau Cornish*

Old friends in the midwest . . . tell me that there isn't a recession there. Business is good and they try not to listen to reports of the east and west coast difficulties. Here in Washington, however, few people would deny that times are tough, though it does seem to be getting better.

So when American Society of Association Execs president Bill Taylor reported that they had to dip into their reserves, it came as no surprise to most members. Member execs have experienced the financial difficulties with their own memberships and they knew that ASAE couldn't possibly be immune to tight money problems.

Reserves are there just for such tough times, as well as for special projects and unforeseen crises. Associations try to set aside excess funds during the good years, hoping to have enough to continue all their programs and services at times when members need them most. Especially in tough times, members call on their associations to provide additional services that they cannot afford to get otherwise. If the association has to cut back just when the members need them most, where would we all be?

# Establishing a Chapter Scholarship Fund

## Guidelines

- (1) The Board of Directors should discuss and approve the charitable use of a separate fund established exclusively for educational purposes. Such discussion and approval should be documented in the minutes of the Board of Directors' meeting. Funds can be set aside as restricted, and a separate account should be used in order that the chapter funds are never commingled with the scholarship fund.
- (2) The exemption requirements require that there is no private inurement, i.e., no private parties benefit from the fund. It is important that there are guidelines and that the recipient is chosen on a non-discriminatory basis. Chapter members and their family members may be granted a scholarship provided they meet the established criteria.
- (3) If the separate fund is dissolved, any monies remaining must go to a charitable organization and must not go back to the chapter funds. Items 2 and 3 should be documented in the minutes of the Board of Directors' meeting.
- (4) As stated in Revenue Ruling 54-243, separate books and accounts must be maintained for the separate fund, i.e., monies cannot be commingled.
- (5) Annual contributions must not exceed \$5,000. If contributions are expected to exceed \$5,000, the chapter must set up a separate 501(c)3 organization. Please call the Society's vice president–finance and administration at (800) 932-CPCU, ext. 2731, for assistance if your chapter expects to exceed the \$5,000 contribution limit.

If the above guidelines are followed, contributions to the fund are deductible by donors in computing their taxable net income without the separate fund being registered as a 501(c)3 entity.

Revenue Ruling 54-243 states that organizations that are exempt under the Internal Revenue code may establish a separate fund exclusively for educational purposes apart from their other funds. If such separate fund is operated exclusively for such purposes, separate books and accounts are maintained and it otherwise meets the requirements for exemption, then the donors are permitted to use the amount contributed in computing their taxable net income. A fund of this character should be organized in such a manner that its assets cannot be used upon dissolution for the general purposes of the organization creating it (chapter) but must be used for purposes similar to those of the fund itself.

Under Section 501(c), a list of exempt organizations includes those established for educational purposes. Therefore, a separate scholarship fund formed by a 501(c)6 organization would be included as an eligible exempt function.

# Chapter Accounting System

The materials that follow in the accounting system section, including the samples, are meant to give you some practical ideas about the kinds of cash receipts and cash disbursement records that should be kept by treasurers. Financial statements should be prepared and reviewed at your monthly board meeting. How often you record transactions and prepare financial statements will probably depend upon the size of your chapter and the volume of transactions.

For the average chapter, it is usually necessary that the monthly reporting and review be handled at the monthly meetings. Obviously, in-depth review of the transactions should not be taking the time of the chapter leaders, but it is reasonable that the president or his or her designated officer should be reviewing the details with the chapter treasurer. All chapter leaders should receive summary reports.

Included in these materials is a sample chart of accounts; this sample may not include all of the accounts that some of the larger chapters use. The purpose of the accounting system guide is to not only provide you with sample reports that you can adapt to your specific requirements, but is to also get you to think about the way you currently process transactions, control the spending against a budget and also present summary reports to the management level of the chapter.

As mentioned elsewhere in this guide, the accounting process begins with an annual budget and the actual results are reported against the plan in the financial statements that are prepared by the treasurer. Provided for you are cash flow examples that include a combined cash journal where all inputs and outputs are reported. In addition, samples of separate journals, where all the inputs (receipts) are recorded on one form and all the outputs (disbursements) are reported on another form, have been included.

Most banks provide a bank reconciliation format and instructions on the reverse side of their monthly bank statements. This accounting section also includes a sample format in lieu of using the back of the monthly statement.

Since accounting is the financial language of a business, it is critical that the treasurer translate the transactions into meaningful reports to help guide chapter management and assist in future planning and budgeting. Quicken software is popular among chapters to create an accounting system.

## Chapter Financial Planning and Management

- I. Establish Budget, Finance and Audit Committees.
- II. Implement the budgeting process.
  - A. Large chapter financial reports.
  - B. Small chapter financial reports.
- III. Review prior two years' reports.
- IV. Establish budget based on sources of funds and uses of funds.
  - A. Sources of funds.
    - (1) Dues.
    - (2) Education programs.
    - (3) Meetings.
    - (4) I-Day.
    - (5) Seminars.
    - (6) Other.
  - B. Uses of funds.
    - (1) Meetings.
    - (2) Education programs.
    - (3) Enhance visibility.
    - (4) Emergency fund.
    - (5) CPCU-Loman Education Foundation.
    - (6) Leadership Summit Chapter Training Day — officer attendance.
    - (7) Annual Meeting — president.
    - (8) Other.
- V. Responsibilities of the chapter treasurer.
- VI. Cash management.

**Figure 2:** An Outline for Chapter Financial Planning and Management

## **Sample Financial Report** **XYZ Chapter**

### A. Statement of Receipts and Disbursements for the First Quarter 20XX

	<b>Actual</b>	<b>Budget</b>
<b>Receipts</b>		
CPCU Course Registrations	\$1,100	\$2,000
Chapter Dues	600	800
Meetings	1,000	700
<b>Total Receipts</b>	<b>\$2,700</b>	<b>\$3,500</b>
<b>Disbursements</b>		
Meetings	1,100	1,300
Instructor Fee	600	600
Postage	80	100
Telephone	100	100
Printing	400	500
Foundation Contribution	100	70
Bank Charge	20	30
<b>Total Disbursements</b>	<b>\$2,400</b>	<b>\$2,700</b>
<b>Excess (Deficit)</b>	<b>*</b> 300	<b>800</b>

### B. Statement of Financial Position as of 3/31/XX

<b>Assets</b>	
Cash — Checking	\$13,855
Cash — Savings	4,500
Certificates	5,000
<b>Total Assets</b>	<b>\$23,355</b>
<b>Liabilities</b> (if any)	0
<b>Chapter Fund Balance/Surplus</b>	\$23,355
<b>Prior Report (12/31/XX) Balance</b>	\$23,055
<b>Net Change in Surplus</b>	* \$300

### C. Comments on Income/Expense Variance:

**Figure 3:** Sample Financial Report

## **Combined Cash Journal (\$) XYZ Chapter for Year 20XX**

<b>Checking Account Cash</b>			<b>Income</b>			<b>Expenses</b>								
Date	Bal.		CPCU Course	Dues	Meetings	Misc. Accounts	Meetings	Instructor Fee	Postage	Telephone	Printing	Foundation	Bank Charge	
Jan. 6	13,555		100										100	
7		250											250	
21		50											50	
28		600											600	
Monthly total		1,000											600	
Balance		\$12,555											50	
Feb. 11		2,100	1,100	1,000				1,100					1,100	
20			50										50	
27			150										150	
Monthly total		2,100	1,300	1,100		1,000			1,100				150	
Balance		\$13,355												
Mar. 6		600			600									
16			20										20	
26			50										50	
31			30										30	
Monthly total		600	100		600								30	
Balance		\$13,855											50	
<b>1st Quarter Summary</b>														
			2,700	2,400	1,100	600	1,000		1,100	600	80	100	400	100
													20	

- File Supporting — Approved Documents
- Balance — Monthly
- Reconcile Bank Statements — Who reviews and approves?
- Safeguard Bank Certificate (Investment Documents)
- Prepare Comparative Reports
- Annually Prepare Tax Return(s), if required

**Figure 4:** Sample Combined Cash Journal

## Detailed Accounting Flow

Ledger of Accounts — Simulated (*Could be 3 x 5" cards, a 3-ring ledger book, or Excel spreadsheet*)

### I. ASSETS

Cash/Checking		Savings		Bank (Name) CD	
7/1 Bal	13,555		7/1 Bal	4,500	
J		1,000			
F	2,100	1,300			
M	600	100			

### II. LIABILITIES AND NET ASSETS

Vendors Payable	Fund Balance (Net Assets)
Most chapters will not require this account	7/1      23,055 Usually not touched until year is completed

### III. REVENUES — INCOME

Dues		CPCU – Courses		Meeting	
J		J		J	
F		F		F	
M	600	M	1,100	M	1,000

### IV. EXPENSES

Instructor Fees		Telephone		Printing		Foundation Contribution	
J	600	J		J	250	J	100
F		F	50	F	150	F	
M		M	50	M		M	

(1) Assets = Liabilities + Worth *or* Worth = Assets – Liabilities

(2) For each year: Revenues – Expenses = Change in Worth

Postage		Bank Charge		Chapter Meeting Exp.	
J		J		J	
F	50	F		F	
M	30	M	20	M	1,100

First Quarter Proofs:

Income = R (\$2,700) – E (\$2,400) = Net Income + \$300

3/31 Fund Balance = 7/1 Beginning Year (\$23,055) & Net Income (\$300) = \$23,355

If this were end of year — close net income to fund balance and start revenue and expense accounts at zero.

Balance Sheet would be at 3/31:

#### **Assets**

Cash	\$13,855
Savings	4,500
Bank CD	5,000
	<u>\$23,355</u>

#### **Formulae:**

- (1)  $A = L + NA$  or  $NA = A - L$
- (2) For each year:  $R - E = \text{Change in NA}$

#### **Net Assets**

Fund Balance    \$23,355    Formula A = L + NA

**Figure 5: Detailed Accounting Flow**

## **Cash Receipts Journal Only**

August 20XX

<b>Date of Deposit</b>	<b>Amount of Deposit</b>	<b>Dues</b>	<b>Monthly Meeting</b>	<b>Seminars/Conferences</b>	<b>Newsletter Advertising</b>	<b>Interest</b>	<b>Other</b>
8/3	400		50		350		
8/7	565			450			115
8/15	(25)		(25)				
8/21	1,245	1,245					
8/22	6,000		6,000				
8/27	750		100	500	150		
8/31	24.85					24.85	
	8,959.85	1,245	6,125	950	500	24.85	115

**Note:** It is recommended that a copy of the bank deposit slip and each check be made (or a list of all checks be kept) to support each deposit. At the end of each month, the cash receipts journal should be totalled and posted to each general journal.

**Figure 6:** Another Example: Another Approach—Sample Cash Receipts Journal

(Numbers are not the same as previous example.)

**Cash Disbursements Journal Only**

August 20XX

Note: All invoices or check requests should include the following:

- (1) Account number or name to be charged.
  - (2) Clerical accuracy of the invoice be verified by the treasurer.
  - (3) Approval (initialled) by the person responsible for the invoice or check request (see sample forms, pages 21 and 23).

No check should be written without these items being included. Once all three items are accounted for, a check should be issued requiring two signatures (if practical). Once signed, a copy of the check should be made and attached to the invoice or check request to prevent duplicate payment. All paid invoices should be filed by vendor or check number. At the end of each month, the cash disbursements journal should be totalled and the amounts posted to each account general journal.

Acct Dist.	
Clerical Accuracy	
Approved	
Memo	

## Authorization for Payment/Distribution

Vendor \_\_\_\_\_  
Address \_\_\_\_\_  
Service rendered \_\_\_\_\_  
Approved by \_\_\_\_\_ Amount \_\_\_\_\_  
Date approved \_\_\_\_\_ Account to be charged \_\_\_\_\_

---

### Chart of Accounts\*

#### Income

1400 Dues Income  
1401 Advertising  
1402 Job Bank  
1403 Meeting Income  
1404 PGA Funds  
1405 Miscellaneous  
1406 Labels/Directory  
1407 Interest Income  
1408 Educational Course Fees

#### Expense

2500 Special Awards  
2600 Annual Awards  
3500 Membership Incentives  
3600 Membership Packets  
4500 Chapter of the Year Expense  
4600 Newsletter Production  
4700 Newsletter Postage  
4800 Public Relations  
5500 Misc. Supplies (Office)  
5600 Directory Production  
5700 Directory Postage  
5800 Executive Secretary  
5801 Telephone  
5802 Misc. Postage  
5803 Stationery/Printing  
5804 Professional Services  
6500 Meetings Expense  
6600 Education Programs  
7500 PGA Awards  
8500 Charity Expense  
9500 Miscellaneous Expense

*\* This list represents a small sample only; each chapter chooses its own chart of accounts, which depends upon how it obtains and spends funds.*

**Figure 8:** Sample Authorization for Payment and Chart of Accounts

## Sample Bank Reconciliation

Aug. 31, 20XX

Balance per Bank—Aug. 31, 20XX \$5,730.58

Add: Deposits in Transit 0.00 (1)

Less: Outstanding Checks

Number	Amount
118	\$114.65
132	345.28
135	75.00
136	250.00
	<u>784.93</u> (2)

Balance per Books—Aug. 31, 20XX \$4,945.65

- (1) Deposits that have been recorded on the books that have not yet been reflected on the bank statement.  
(2) Checks written on the books that have not yet cleared the bank statement.

Note: The bank reconciliation must be performed timely on a monthly basis.

**Figure 9:** Sample Bank Reconciliation

## Check Request

**Vendor Name**

\_\_\_\_\_

**Address**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Check Amount**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Purpose**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Director/Manager Approval**

**Date**

**Figure 10:** Sample Check Request Form

# Chapter Treasurer Planning Resources

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Chapter treasurers have fiduciary responsibilities for the management of the chapter's funds. These responsibilities include accurately maintaining financial records, complying with chapter bylaws and appropriate public laws and following generally accepted accounting principles. The treasurer does not need to be an accountant, but does need to be familiar with fundamental accounting principles and know where to seek help regarding challenging issues. Often, chapter members with financial backgrounds can be valuable resources. Some chapters employ a bookkeeper, or they may hire an accountant to maintain records or provide tax advice when necessary. The Society's finance staff can also be a valuable resource to chapters and their treasurers.

It is important that treasurers become familiar with their duties and responsibilities immediately after they assume the treasurer position. Much chapter planning revolves around the availability of financial resources to fund special projects and events. As custodian of those resources, the treasurer must be able to provide critical financial information, and do so accurately, with confidence, and in a timely manner. Otherwise, results may unfavorably impact the success of chapter events or the chapter's financial stability, or both.

The treasurer should appreciate the role that surplus plays in protecting a chapter's financial position, yet must also understand how too much surplus can potentially jeopardize a chapter's tax-exempt status.

To facilitate timely reporting and informed financial management, the Society has designed the following **Treasurer's Planning & Activity Report** and **Treasurer's Planning Calendar**.



# TREASURER'S PLANNING & ACTIVITY REPORT

Chapter

For Fiscal Year Ending May 31,

<b>Activity</b>	<b>Answer</b>
Have the previous and current chapter treasurers reviewed all records and documents?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Does the chapter have a tax exemption letter from the IRS?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Where does the chapter keep the letter and other important financial documents?	
Is the chapter incorporated?	<input type="checkbox"/> Yes <input type="checkbox"/> No
What is the chapter's federal tax identification number?	
When does the chapter's fiscal year start and end?	
How much money does the chapter have in surplus (savings)?	
What are the chapter's anticipated expenses for the fiscal year?	
How much income is the chapter projected to receive in the fiscal year?	
Is the chapter required to file a federal tax return and/or state return?	<input type="checkbox"/> Yes <input type="checkbox"/> No
When are the tax returns due? (Remember to send a copy to the Society.)	
Does the chapter use an outside bookkeeping or accounting service?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Name and address:	
Does the chapter utilize computer software for bookkeeping/records?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Are dues received from the Society reconciled with chapter records of payments by members?	<input type="checkbox"/> Yes <input type="checkbox"/> No
What financial reports are prepared by the treasurer?	
How often?	Who reviews the reports?
Does the chapter prepare a budget?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Are differences in actual results reconciled with budget allowances?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Who reconciles the chapter's bank statement(s)?	
Who reviews and approves the reconciliation(s)?	
What is the minimum disbursement amount requiring two signatures on a check?	
Who is authorized to sign checks and what is his or her title?	
Who approves invoices for payment?	
Regarding investments:	
What is their type and their current amounts?	
Do any mature during the coming fiscal year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
What will be done with those that mature?	
Does the chapter employ any independent contractors?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Which have provided IRS W-9 forms to the chapter?	
Which will likely earn at least \$600 for the calendar year and need IRS 1099-MISC forms?	
Does the chapter have a scholarship fund?	<input type="checkbox"/> Yes <input type="checkbox"/> No
What is its balance?	How much is granted each year?
Who manages it?	
Does it receive matching funds from the CPCU-Loman Education Foundation?	<input type="checkbox"/> Yes <input type="checkbox"/> No
How much?	
Does the chapter pay and/or collect sales tax?	<input type="checkbox"/> Yes <input type="checkbox"/> No

Projected Fiscal Year-End Financial Statistics	
Beginning Surplus:	\$ _____
Estimated Gross Receipts:	+ _____
Estimated Expenses for Year:	- _____
Estimated Ending Surplus:	= _____

## Chapter Officers:

President: \_\_\_\_\_  
Treasurer: \_\_\_\_\_  
President-Elect: \_\_\_\_\_  
Vice President: \_\_\_\_\_  
Secretary: \_\_\_\_\_



# TREASURER'S PLANNING CALENDAR

Date	Activity Area	Follow-Up Dates
June to August	<ul style="list-style-type: none"><li><input type="checkbox"/> New treasurer meets and reviews financials from previous fiscal year with previous year's treasurer.</li><li><input type="checkbox"/> New and previous treasurers verify accuracy of all records.</li><li><input type="checkbox"/> Inconsistencies/errors in records addressed and resolved.</li><li><input type="checkbox"/> New treasurer reviews chapter bylaws pertaining to financial matters and reviews <i>Chapter Financial Management Guide</i> (CFMG).</li><li><input type="checkbox"/> Verify state and federal tax return dates.</li><li><input type="checkbox"/> Confirm chapter bank information with Malvern.</li><li><input type="checkbox"/> Obtain new signature cards for checks; confirm number of signatures needed and minimum amount. Determine status of any time deposit accounts and maturity date.</li><li><input type="checkbox"/> New treasurer assumes responsibility for books and records.</li><li><input type="checkbox"/> Confirm existence and location of the chapter's tax exemption letter from the IRS and Tax ID number.</li><li><input type="checkbox"/> New officers planning meeting — review previous year's financials.</li><li><input type="checkbox"/> Prepare pro-forma budget based upon chapter's programs and anticipated revenues and expenditures.</li><li><input type="checkbox"/> Agree on disposition of investments that mature during the fiscal year.</li></ul>	None
September	<ul style="list-style-type: none"><li><input type="checkbox"/> Verify or secure federal W-9 forms from all independent contractors.</li><li><input type="checkbox"/> Prepare first monthly financial statements — income statement and balance sheet.</li><li><input type="checkbox"/> Review with all chapter leaders and compare with budget.</li><li><input type="checkbox"/> Reconcile bank statements and obtain initials of two other officers.</li></ul>	Monthly
September	First receipt of dues for membership from Society (if on a June 1 to May 31 fiscal year). Reconcile member dues payments received from the Society with current member roster.	March, May
Oct. 15	If on a June 1 to May 31 fiscal year, file IRS Form 990-N or 990 EZ no later than Oct. 15.	N/A
Dec. 31	If on a calendar year, reconcile and close books. Federal tax returns due no later than May 15.	May 15
By Jan. 31	All 1099 MISC forms to be provided to all independent contractors such as instructors employed during the previous calendar year and who were paid at least \$600. File with the IRS by Feb. 28.	N/A
February	Second receipt of chapter dues paid by Society. Reconcile with member list.	May
May	Third installment of chapter dues paid by Society. Reconcile with member list.	N/A
May 15	If on a calendar fiscal year, federal tax returns due.	N/A
May 31	If on June 1 to May 31 fiscal year, reconcile and close books. Federal tax returns due no later than Oct. 15.	Oct. 15
May to June	Election of new chapter officers.	N/A

# Federal Tax Matters

## **Federal Employers Identification Number**

The chapter must have a Federal Employers Identification Number. If no records on a Federal Identification Number can be found in chapter records or on file with the CPCU Society, contact the IRS Business and Specialty Tax Line at (800) 829-4933.

## **Tax-Exempt Status**

The chapter must have a letter from the Internal Revenue Service confirming its tax-exemption status. If a letter cannot be located in chapter records and is not on file with the CPCU Society, contact IR EO Customer Service at (800) 829-5500 to request a copy of the determination letter. Send a copy of the determination letter to Society headquarters so it can be placed in the chapter permanent file.

## **IRS Tax Filing Requirements**

Society chapters are classified as 501(c)6 organizations by the IRS and as such are exempt from federal income tax. However, chapters have IRS filing requirements which must be met or risk losing tax-exempt status.

### **Form 990-N (e-postcard)**

Chapters with gross receipts of \$25,000 or less for tax year 2009 must electronically file Form 990-N (e-postcard) with the IRS. Beginning with tax year 2010, chapters with gross receipts of \$50,000 or less must electronically file Form 990-N. **Any organization that fails to file the required e-postcard for three consecutive years will automatically lose its tax-exempt status.** Visit the IRS Web site at [www.irs.gov/eo](http://www.irs.gov/eo). The filing is due the 15th day of the fifth month after the close of your tax year. Chapters operating on a fiscal year June 1, 20XX–May 31, 20XX must file by Oct. 15, 20XX. Chapters operating on a calendar year must file by May 15.

### **Form 990-EZ**

File form 990-EZ for 2009 tax year (filed in 2010) if gross receipts are more than \$25,000

and less than \$500,000 and assets are less than \$1.25 million. File Form 990-EZ for 2010 tax year and thereafter if gross receipts are more than \$50,000 and less than \$200,000 and assets are less than \$500,000. Form 990-EZ is due the 15th day of the fifth month after the close of the year. The form is due May 15 for chapters on a calendar year and Nov. 15 for chapters with a fiscal year ending June 30. Form 8868 is used to request an automatic three-month extension. Forms and instructions may be downloaded at [www.irs.gov/eo](http://www.irs.gov/eo).

Form 990-EZ is an information return and is subject to disclosure requirements. This means that a chapter must make its application for tax exemption and its annual information return (990-EZ if required to be filed) available for public inspection. The 990-EZ instruction booklet includes information regarding this requirement.

## **Form 8822, Change of Address**

All chapters are required to file accurate contact information with the Internal Revenue Service. The IRS will periodically send routine letters to tax exempt organizations that require confirming tax filing status. Failure to respond timely may result in a suspension in tax exempt status. Since many chapters give an officer's address as the IRS contact information, it is important to update the address when there is a change in officers. Change of Address Form 8828 and instructions may be downloaded from the IRS Web site.

## **W-9, 1099 and 1096 Forms**

If you pay independent contractors, such as instructors or clerical help, you should obtain a W-9 form from each person. The form provides you with the name, address and social security number of the individual. You must provide a 1099 form to each individual who was paid at least \$600 during the calendar year or before Jan. 31 of the following year. On or before Feb. 28, you must submit those forms to the IRS using summary transmittal form 1096.

The IRS Web site, [www.irs.gov](http://www.irs.gov), allows users to download most forms and instructions. Please note that the most commonly used tax form, the 1099 MISC. form, cannot be downloaded from this site. Forms may be ordered by calling (800) TAX-FORM (800-829-3676). Please allow six to eight weeks delivery time, especially during tax season. In fact, it's best to order forms early as it may be difficult just getting a call through the 800 number during the busy tax season.

## **Tax Assistance**

The CPCU Society office is familiar with most federal tax matters and can help you to complete returns if you should need answers to questions you may have. Blank forms are mailed to the last known address by the IRS. If you need forms, you can contact your local IRS office, call (800) TAX-FORM or call Society headquarters. Visit the IRS Web site at [www.irs.gov](http://www.irs.gov) to download forms.

Local tax counsel should be contacted periodically to determine if state laws affect the chapter. Hint: A local company or a chapter member who is a CPA may be a source of free tax advice.

A copy of your tax return should be filed with the Society's office. Mail it to the vice president-finance and administration.

## **Chapter Surplus**

The Internal Revenue Service allows a "reasonable" amount of surplus to be accumulated by a chapter. As a general rule, "reasonable" is considered as the cost of all anticipated chapter expenses for one year.

## **What to Do When the IRS Sends Notice**

The IRS will send a notice if it plans to audit your chapter. While the notice you receive may seem inflexible, you might be able to change certain aspects such as the time of the audit, the place and possibly the list of materials that you need to furnish. It would be a good idea to be well prepared before

the audit begins. You can do this by having a reasonable place for the auditor to review the documents and have all the documents available, thereby allowing the agent to make the most efficient use of his or her time. The audit is not complete until the results are reviewed by the agent's supervisor and you receive a "revenue agent's report." They should not leave with any of your original documentation.

You can possibly avoid the IRS' attention, making it less likely they will send notice, by following some of the simple rules:

- File Form 990-N electronically or file a legible, correct 990-EZ on time with all questions answered and all of the schedules that may be required. If you happen to leave out information and the IRS asks for it, provide it promptly.
- Respond to anyone who asks to see your 990-EZ information return; it is a public document. You don't want a disgruntled individual complaining to the IRS, thereby drawing attention to your tax return.
- Refer to the most common mistakes that not-for-profit organizations make in dealing with the IRS (see Figure 11 on page 29).

## **Contributions**

Certain tax-exempt organizations are not eligible to receive tax-deductible *charitable* contributions. If you are involved in soliciting funds/contributions for any purpose other than an established scholarship fund, you must be sure to advise your contact whether it be by mail or telephone that the contributions are not deductible in the category of charitable contributions. You may also advise them that they may get a tax deduction as a business expense, but the circumstances in each situation must be analyzed. If you have any questions about solicitation, please contact the vice president-finance and administration at the Society's office.

Please refer to Figure 12, "Guide to IRS Forms and Requirements for CPCU Society Chapters," on page 30 for additional tax information.

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## **Six Most Common Association Federal Tax Mistakes**

- (1) Failing to report changes in operations and activities to the IRS. An exemption application that fails to disclose planned activities provides no protection as to the exempt status of the undisclosed activities, and may undercut the validity of the organization's exemption.
- (2) Overlooking IRS conditions in ruling letters and not heeding IRS audit changes and cautions.
- (3) Failing to consider obvious and subtle Unrelated Business Income Tax (UBIT) issues.
- (4) Filing incomplete or inaccurate information and tax returns.
- (5) Failing to maintain adequate books and records.
- (6) Misclassification of employees as independent contractors.

**Figure 11:** *Common Tax Mistakes*

## Guide to IRS Forms and Requirements for CPCU Society Chapters

Form No.	Title	When to Review/Use Form	Comments/Due Date
SS-4	Application for Employer Identification Number (including instructions)	New chapters or a chapter that has lost its ID number; refile for a new number if status changes from unincorporated to incorporated, name change, etc.	Every chapter must obtain an ID number as soon as possible after formation, even if not required to file a tax return. It is required by banks, like a "Society Security" number.
Publ. 557	Tax-Exempt Status for Your Organization	Information about qualifying as a tax-exempt organization.	CPCU Society chapters should qualify, like the Society, under §501(c)(6) of the Internal Revenue Code (professional associations, etc.).
1024	Application for Recognition of Exemption Under Section 501(a)	New chapters; existing chapters may be required to refile if status changes from unincorporated to incorporated, or if original exemption letter has been lost and a duplicate cannot be obtained from the IRS (e.g., if the employer ID number also is lost).	Every chapter must obtain an exemption letter from the IRS as soon as possible after formation. Treasurer or secretary keeps this letter with the permanent records of the chapter; these records always must be passed on to successors in the position. Send copy to Society office in Malvern, Pa., for protection against loss.
990	Return of Organization Exempt from Income Tax/ Instructions for Form 990	Any qualifying organization may use Form 990 to file, but most chapters do not need to use this long form; see Form 990-EZ. File annually.	Few (if any) chapters need to use the long version of Form 990; it is simpler and less expensive to use 990-EZ. Filing the long Form 990 by chapters is strongly discouraged.
990-EZ	Short Form Return of Organization Exempt from Income Tax/Instructions for Form 990-EZ	For 2009, file if gross receipts are more than \$25,000 and less than \$500,000. For 2010 and after, file if gross receipts are more than \$50,000 and less than \$200,000.	Filing due date is 15th day of the fifth month after the close of your tax year.
990-N	Annual electronic filing requirement for small exempt organizations	Chapters with gross receipts of \$25,000 or less for 2009 must electronically file 990-N (e-postcard). Beginning with tax year 2010, chapters with gross receipts of \$50,000 or less must electronically file.	Filing due date is 15th day of the fifth month after the close of your tax year.
990-T	Exempt Organization Business Income Tax Return/ Instructions for Form 990-T	Chapters with unrelated business income (including interest) may be subject to UBIT** and be required to file this form annually in addition to Form 990-EZ or 990.	Review Publication 598 to determine whether the chapter has UBIT. Be sure that expenses are properly allocated to unrelated business income. Same due date as 990/990-EZ.
Publ. 598	Tax on Unrelated Business Taxable Income of Exempt Organizations	Review to determine when chapter activities may be generating UBIT.**	Business income may include advertising revenues and some other types of income.
990-W	Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations	If UBIT** is large enough to qualify, the chapter might need to file quarterly estimated tax payments, using Form 8109.	Prepare as a worksheet (not filed with the IRS) for the chapter's records. Use Form 8109 to file and pay deposits to qualified banks by 15th day of fourth, sixth, ninth and 12th months of fiscal year.
8822	Change of Address	Use to report change of address.	File as needed to keep address current.
8868	Application for Automatic Extension of Time to File an Exempt Organization Return	Use this form to request an extension of time to file Form 990-T, 990-EZ, or 990-T.	Automatically extends filing deadline to three months after the original due date. Due by original due date of return.

**Figure 12:** Guide to IRS Forms and Requirements for CPCU Society Chapters

\*\* UBIT (Unrelated Business Income Tax)  
Regularly carried on business activities that don't contribute to an association's tax-exempt purposes that earn income may be subject to federal taxes.

# State Sales and Use Taxes for Exempts

Many federally exempt institutions are under the impression that because they are exempt from federal and state income taxes, they are also exempt from the sales and use taxes.

This is not always the case. Not only do many states impose sales and use taxes on these institutions, but they are also aggressively auditing them to make certain the taxes are paid.

Penalties for noncompliance are stiff, and audits are time-consuming and expensive. An exempt institution also risks the embarrassment of being found in non-conformance with important state tax laws.

Taxpayers are normally required to pay sales tax on personal property in the state in which they purchase or lease it. In the alternative, they may be required to pay a use tax if they buy the property from a retailer in another state and then use it in their home state.

Use taxes, for example, need to be paid on items purchased by mail order or from out-of-state vendors that are “used” by the taxpayer in his or her home state.

Few states, however, provide a blanket exemption for all exempts’ purchases.

Frequently, states will exempt non-profits organized exclusively for charitable, educational or religious purposes from paying sales and use taxes on their purchases.

Business leagues, such as the Society and Society chapters, are usually subject to sales and use taxes.

Given such a hodgepodge of laws, exempts should carefully review their tax status with their state tax advisors. CPCU Society chapters that are exempt from federal taxation are usually exempt as an association or a (501-C-6) business league corporation. This fact does not alone exempt business league organizations from state and local taxes of any kind.

In general, you are probably not exempt from the state sales and use taxes. It may be worthwhile to contact your state taxing

authority to get a list of items and services that may be exempt by tax code within your individual states. For example, in the state of Pennsylvania, materials purchased for direct mail advertising campaigns are exempt by code. There are other examples that exist in the state of Pennsylvania, and they may also exist in your particular state. You may be able to save sales tax if you buy materials and services that are exempt by code.

Bear in mind that if you sell personal property (such as textbooks) you may be responsible for collecting the sales tax from the purchaser or if you do not wish to charge sales tax, you may be able to absorb it within your own chapter budget. In any case, if your state requires sales to be subject to the sales tax then you must comply and file a return and remit the tax.

## **If You Need More Assistance**

Although this guide is designed to be a primary resource for chapter treasurers, you may have questions or concerns that have not been addressed. Please feel free to contact Society staff for assistance at (800) 932-CPCU, ext. 2731.

***Your service to the  
CPCU Society as a  
chapter treasurer  
is greatly appreciated.***

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# Short Form Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code  
(except black lung benefit trust or private foundation)

- Sponsoring organizations of donor advised funds and controlling organizations as defined in section 512(b)(13) must file Form 990. All other organizations with gross receipts less than \$500,000 and total assets less than \$1,250,000 at the end of the year may use this form.
- The organization may have to use a copy of this return to satisfy state reporting requirements.

**A For the 2009 calendar year, or tax year beginning**

, 2009, and ending

, 20

<b>B</b> Check if applicable: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Address change</td> <td style="width: 15%; vertical-align: top; padding: 2px;"><b>C</b> Name of organization  <b>Please use IRS label or print or type. See Specific Instructions.</b></td> <td style="width: 70%; vertical-align: top; padding: 2px;">D Employer identification number</td> </tr> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Name change</td> <td style="width: 15%; vertical-align: top; padding: 2px;">Number and street (or P.O. box, if mail is not delivered to street address)</td> <td style="width: 70%; vertical-align: top; padding: 2px;">E Telephone number</td> </tr> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Initial return</td> <td style="width: 15%; vertical-align: top; padding: 2px;">Room/suite</td> <td style="width: 70%; vertical-align: top; padding: 2px;">F Group Exemption Number ►</td> </tr> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Terminated</td> <td colspan="2"></td> </tr> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Amended return</td> <td colspan="2"></td> </tr> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;"><input type="checkbox"/> Application pending</td> <td colspan="2"></td> </tr> </table>	<input type="checkbox"/> Address change	<b>C</b> Name of organization  <b>Please use IRS label or print or type. See Specific Instructions.</b>	D Employer identification number	<input type="checkbox"/> Name change	Number and street (or P.O. box, if mail is not delivered to street address)	E Telephone number	<input type="checkbox"/> Initial return	Room/suite	F Group Exemption Number ►	<input type="checkbox"/> Terminated			<input type="checkbox"/> Amended return			<input type="checkbox"/> Application pending		
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<input type="checkbox"/> Application pending																		

- **Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).**

**G** Accounting Method:  Cash  Accrual  
Other (specify) ►

**I Website:** ►J Tax-exempt status (check only one) —  501(c) ( ) ◀ (insert no.)  4947(a)(1) or  527

**H** Check ►  if the organization is **not** required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

K Check ►  if the organization is not a section 509(a)(3) supporting organization **and** its gross receipts are normally **not** more than \$25,000. A Form 990-EZ or Form 990 return is not required, but if the organization chooses to file a return, be sure to file a complete return.

L Add lines 5b, 6b, and 7b, to line 9 to determine gross receipts; if \$500,000 or more, file Form 990 instead of Form 990-EZ ► \$

**Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances** (See the instructions for Part I.)

Revenue	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">1</td> <td style="width: 15%; vertical-align: top; text-align: right;">Contributions, gifts, grants, and similar amounts received . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">1</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">2</td> <td style="width: 15%; vertical-align: top; text-align: right;">Program service revenue including government fees and contracts . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">2</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">3</td> <td style="width: 15%; vertical-align: top; text-align: right;">Membership dues and assessments . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">3</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">4</td> <td style="width: 15%; vertical-align: top; text-align: right;">Investment income . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">4</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">5a</td> <td style="width: 15%; vertical-align: top; text-align: right;">5a Gross amount from sale of assets other than inventory . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">5a</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">b</td> <td style="width: 15%; vertical-align: top; text-align: right;">b Less: cost or other basis and sales expenses . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">5b</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">c</td> <td style="width: 15%; vertical-align: top; text-align: right;">c Gain or (loss) from sale of assets other than inventory (Subtract line 5b from line 5a) . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">5c</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">6</td> <td style="width: 15%; vertical-align: top; text-align: right;">6 Special events and activities (complete applicable parts of Schedule G). 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**Part II Balance Sheets.** If Total assets on line 25, column (B) are \$1,250,000 or more, file Form 990 instead of Form 990-EZ.

(See the instructions for Part II.)

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">22</td> <td style="width: 15%; vertical-align: top; text-align: right;">22 Cash, savings, and investments . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">(A) Beginning of year</td> <td style="width: 10%; vertical-align: top; text-align: right;">(B) End of year</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">23</td> <td style="width: 15%; vertical-align: top; text-align: right;">23 Land and buildings . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">22</td> <td style="width: 10%; vertical-align: top; text-align: right;">23</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">24</td> <td style="width: 15%; vertical-align: top; text-align: right;">24 Other assets (describe ► _____)</td> <td style="width: 70%; vertical-align: top; text-align: right;">24</td> <td style="width: 10%; vertical-align: top; text-align: right;">24</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">25</td> <td style="width: 15%; vertical-align: top; text-align: right;"><b>Total assets</b> . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">25</td> <td style="width: 10%; vertical-align: top; text-align: right;">25</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">26</td> <td style="width: 15%; vertical-align: top; text-align: right;"><b>Total liabilities</b> (describe ► _____)</td> <td style="width: 70%; vertical-align: top; text-align: right;">26</td> <td style="width: 10%; vertical-align: top; text-align: right;">26</td> </tr> <tr> <td style="width: 15%; vertical-align: top; text-align: right;">27</td> <td style="width: 15%; vertical-align: top; text-align: right;"><b>Net assets or fund balances</b> (line 27 of column (B) <b>must</b> agree with line 21) . . . . .</td> <td style="width: 70%; vertical-align: top; text-align: right;">27</td> <td style="width: 10%; vertical-align: top; text-align: right;">27</td> </tr> </table>	22	22 Cash, savings, and investments . . . . .	(A) Beginning of year	(B) End of year	23	23 Land and buildings . . . . .	22	23	24	24 Other assets (describe ► _____)	24	24	25	<b>Total assets</b> . . . . .	25	25	26	<b>Total liabilities</b> (describe ► _____)	26	26	27	<b>Net assets or fund balances</b> (line 27 of column (B) <b>must</b> agree with line 21) . . . . .	27	27
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**Part III Statement of Program Service Accomplishments** (See the instructions for Part III.)

What is the organization's primary exempt purpose?

Describe what was achieved in carrying out the organization's exempt purposes. In a clear and concise manner, describe the services provided, the number of persons benefited, and other relevant information for each program title.

## Expenses

(Required for section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts; optional for others.)

28

(Grants \$

)) If this amount includes foreign grants, check here

28a

29

(Grants \$

3) If this amount includes foreign grants, check here

29a

30

(Grants \$

) If this amount includes foreign grants, check here

30a

**31 Other program services (attach schedule)**

**(Grants \$)**

1) If this amount includes foreign grants, check here

31 a

32

**Part IV List of Officers, Directors, Trustees, and Key Employees**

32

**Part IV List of Officers, Directors, Trustees, and Key Employees.** List each one even if not compensated. (See the instructions for Part IV.)

**Part V Other Information** (Note the statement requirements in the instructions for Part V.)

	<b>Yes</b>	<b>No</b>
33 Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity . . . . .	33	
34 Were any changes made to the organizing or governing documents? If "Yes," attach a conformed copy of the changes . . . . .	34	
35 If the organization had income from business activities, such as those reported on lines 2, 6a, and 7a (among others), but <b>not</b> reported on Form 990-T, attach a statement explaining why the organization did not report the income on Form 990-T. . . . .	35a	
a Did the organization have unrelated business gross income of \$1,000 or more or was it subject to section 6033(e) notice, reporting, and proxy tax requirements? . . . . .	35b	
b If "Yes," has it filed a tax return on <b>Form 990-T</b> for this year? . . . . .	36	
36 Did the organization undergo a liquidation, dissolution, termination, or significant disposition of net assets during the year? If "Yes," complete applicable parts of Schedule N . . . . .	37a	
37a Enter amount of political expenditures, direct or indirect, as described in the instructions. ► <b>37a</b> . . . . .	37b	
b Did the organization file <b>Form 1120-POL</b> for this year? . . . . .	38a	
38a Did the organization borrow from, or make any loans to, any officer, director, trustee, or key employee <b>or</b> were any such loans made in a prior year and still outstanding at the end of the period covered by this return? . . . . .	38b	
b If "Yes," complete Schedule L, Part II and enter the total amount involved . . . . .	39a	
39 Section 501(c)(7) organizations. Enter:	39b	
a Initiation fees and capital contributions included on line 9 . . . . .	40a	
b Gross receipts, included on line 9, for public use of club facilities . . . . .	40b	
40a Section 501(c)(3) organizations. Enter amount of tax imposed on the organization during the year under: section 4911 ► _____ ; section 4912 ► _____ ; section 4955 ► _____	40c	
b Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in any section 4958 excess benefit transaction during the year or is it aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? If "Yes," complete Schedule L, Part I . . . . .	40d	
c Section 501(c)(3) and 501(c)(4) organizations. Enter amount of tax imposed on organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 . . . . .	40e	
d Section 501(c)(3) and 501(c)(4) organizations. Enter amount of tax on line 40c reimbursed by the organization . . . . .		
e All organizations. At any time during the tax year, was the organization a party to a prohibited tax shelter transaction? If "Yes," complete Form 8886-T. . . . .		
41 List the states with which a copy of this return is filed. ► _____		
42a The organization's books are in care of ► _____	42b	42c
Located at ► _____	42d	42e
b At any time during the calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? . . . . .	42f	42g
If "Yes," enter the name of the foreign country: ► _____		
See the instructions for exceptions and filing requirements for <b>Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts</b> .		
c At any time during the calendar year, did the organization maintain an office outside of the U.S.? . . . . .		
If "Yes," enter the name of the foreign country: ► _____		
43 Section 4947(a)(1) nonexempt charitable trusts filing Form 990-EZ in lieu of <b>Form 1041</b> —Check here . . . . . ► <input type="checkbox"/>	43	
and enter the amount of tax-exempt interest received or accrued during the tax year . . . . .		
44 Did the organization maintain any donor advised funds? If "Yes," Form 990 must be completed instead of Form 990-EZ . . . . .	44	45
45 Is any related organization a controlled entity of the organization within the meaning of section 512(b)(13)? If "Yes," Form 990 must be completed instead of Form 990-EZ . . . . .	45	

**Part VI** **Section 501(c)(3) organizations and section 4947(a)(1) nonexempt charitable trusts only.** All section 501(c)(3) organizations and section 4947(a)(1) nonexempt charitable trusts must answer questions 46–49b and complete the tables for lines 50 and 51.

- |     |   |     |    |
|-----|---|-----|----|
| 46  | Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I . . . . .  | Yes | No |
| 47  | Did the organization engage in lobbying activities? If "Yes," complete Schedule C, Part II . . . . .  | 46  |    |
| 48  | Is the organization a school as described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E . . . . .  | 47  |    |
| 49a | Did the organization make any transfers to an exempt non-charitable related organization? . . . . .   | 48  |    |
| b   | If "Yes," was the related organization a section 527 organization? . . . . .  | 49a |    |
| 50  | Complete this table for the organization's five highest compensated employees (other than officers, directors, trustees and key employees) who each received more than \$100,000 of compensation from the organization. If there is none, enter "None." | 49b |    |

f Total number of other employees paid over \$100,000 . . . . ►

- 51 Complete this table for the organization's five highest compensated independent contractors who each received more than \$100,000 of compensation from the organization. If there is none, enter "None."

d Total number of other independent contractors each receiving over \$100,000 . . ►

<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.		
	Signature of officer	Date	
	Type or print name and title		

May the IRS discuss this return with the preparer shown above? See instructions

# Seminar Instructors — IRS Private Letter Ruling

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The IRS has issued a private letter ruling that certain seminar instructors must be treated as employees for FICA, FUTA and federal income tax withholding purposes. Please note that a private letter ruling does not make this an official decision. A ruling is based upon a certain set of facts as submitted to the IRS and it has decided on that specific situation only.

According to the facts submitted to the IRS, the organization provided continuing education, technical assistance and other professional services to its members. The organization arranges several workshops and seminars each year and asks certain individuals whether they would like to provide instruction at these seminars. Seminars take place at various hotel locations, and instructors can accept or reject teaching at any seminar. The relationship of instructor can be terminated by either party at any time without incurring any liability.

The instructor receives a specified rate per day of instructional services and a daily rate for travel from one site to the other. Per diem meal allowances are also included. The organization pays for the use of the hotel room in which the seminar takes place. The agreement is that the instructor will be treated as an independent contractor and not an employee of the organization.

The instructors are given training in the form of pre-seminar meetings designed to review the materials and share ideas. The organization furnishes the instructors with a manual for instructions and provides the instructors with equipment and supplies. Evaluations are completed by seminar participants and if required, the organization suggests improvement for future instruction. The instructors report to the organization approximately two to three times a week during the course of a seminar to report on the progress either in writing or by phone. The instructors do not hold themselves out to be in business to perform the same or similar services for anyone. They cannot incur a loss while performing their services as instructors. The instructors perform their services under the organization's business name

and not their own. The organization pays for certain expenses incurred by the instructors.

The question of whether an individual is an employee under the common-law rules or an independent contractor is one of fact to be determined upon consideration of the facts and the application of the law and regulation in a particular case. In previous communications to chapter officers, the Society has provided guidelines for categorizing employee versus independent contractor status. In addition, if in doubt, any organization can submit the facts to the IRS for a ruling using Form SS-8, *information for use in determining whether a worker is an employee for federal employment taxes and income tax withholding*.

If you think that you have a borderline situation and wish to discuss the facts further, contact the Society at (800) 932-CPCU, ext. 2731.

## **Employee or Independent Contractor?**

<b>Factor</b>	<b>Suggests Employment</b>	<b>Suggests Independent Contractor</b>
(1) Instructions	Firm instructs on location, hours, methods, etc. of service, or firm has right to do so.	Absence of firm's right to instruct on location, hours, methods, etc.
(2) Training	Firm provides training.	No training by firm.
(3) Integration	Worker's services are integral part of firm's operation and critical to firm's success.	Worker's services are incidental to firm's operations.
(4) Services rendered personally	Worker must render services personally.	Worker can delegate or subcontract.
(5) Hiring, supervising, paying assistants	Worker may hire, supervise, pay assistants only with firm's approval.	Worker has discretion to hire, supervise, and pay assistants.
(6) Duration of relationship	Lengthy, indefinite, or otherwise open-ended.	Limited in time or as to specific result.
(7) Hours of work	Set by firm or inflexible.	Set by worker.
(8) Amount of time required	Substantially full time.	Less than full time.
(9) Workplace	Firm's premises.	Off premises of firm.
(10) Order or sequence of work	Set by firm.	Set by worker.
(11) Reports	Worker provides oral or written progress reports.	No reports provided by worker.
(12) Methods of payment	Hour, day, week, or other measure of time.	Not time-based; lump sum, piece work, etc.
(13) Business/travel expense	Reimbursed by firm.	Paid by worker without reimbursement.
(14) Tools/materials	Provided by firm.	Provided by worker.
(15) Significant investment	Firm provides facilities, equipment, etc.	Worker provides facilities, equipment, etc.
(16) Realization of profit or loss	Worker cannot realize profit or loss (risk of nonpayment not viewed as loss by IRS).	Worker has risk of loss (investment/expenses, fixed price dependent on outcome, etc.)
(17) Work for multiple firms	Worker has exclusive relationship with firm.	Worker has multiple clients.
(18) Making services available to public	Worker doesn't hold self out to public.	Worker advertises or has own office, has business cards, etc.
(19) Firm's right to fire	Firm can fire worker at will.	Worker cannot be fired at will during contract term/project w/o firm liable for breach.
(20) Worker's right to quit	Worker may quit at will.	Worker must complete term/project or be liable for breach of contract

Source: ASAE *Dollars + Cents* newsletter