

Local Section Finances

Local sections, like the national association, must incur expenses, manage their budgets, pay bills, and deal with tax issues. The following information provides the basic requirements for managing the financial operations of your local section. It also provides some useful material on such complicated issues as tax exemption, incorporation, and cash management.

Please note: this section does not give comprehensive guidance on all financial matters. It is recommended that local sections enlist the services of an experience certified public accountant (CPA) and/or a lawyer for specific financial and legal questions.

Financial Management and Responsibilities

Fiduciary Responsibility

- Local section officers are fiduciaries—trustees of money that belongs to the members—and are accountable for how the money is handled.
- All expenditures of local section funds must be approved by the designated officer(s).
- All transactions must be related to section activity.
- The elected officers are responsible for fiscal management, paying expenses from the budget as approved, preparing regular financial statements for the section, and auditing the records and accounts for the section entrusted to the treasurer.

Establishing a Checking Account

- The section should establish a checking account in its name (to read “ABC Section, American Industrial Hygiene Association,” not “American Industrial Hygiene Association, ABC Section”). It is recommended that two officers have signatory status on all accounts.
- The section should consider an e-commerce platform for receiving and sending payments. Individual logins should be established for anyone with access to this account and withdrawals can only be made to the section bank account. This account can also be used for transfer of payment for authorized transactions.
- All payments or gifts made to the section by check, money order, or other forms must be made payable to the section and not to the national association. No section can collect funds payable to the national association itself.
- The bank will require an employer identification number (EIN). If you do not know your local section’s EIN it can be obtained from the national AIHA.

Duties of the Local Section Treasurer

The treasurer is responsible for all aspects of the section’s accounting, tax, and other financial matters. Responsibilities of the treasurer include:

- Meeting with the outgoing section treasurer to review financial records, checking accounts, and investment accounts.
- Verifying the accuracy of all accounts and completeness of records received from the outgoing treasurer.

- Obtaining new signature authorization cards for checking and investment accounts and filing cards with the financial institutions(s).
- Reviewing past local section income and expense accounts.
- Working with the board or Budget Committee to finalize the estimated program costs and budget for the year.
- Before issuing payment verifying the accuracy of invoices or other expense statements. All payments should have associated documentation.
- Classifying incoming funds by function or income category and making deposits regularly in the appropriate accounts.
- Preparing information for AIHA's annual group exemption report form and IRS Form 990, 990-EZ or 990-N
- Having all financial statements prepared and balanced, and all financial records in order before turning responsibilities over to successor.

Section Finance Reports and Records

- **Bank reconciliation statement.** The checking account should be used for record-keeping purposes and to process all section money. At least quarterly, copies of the bank account and bank reconciliation statements should be given to the section president.
- **Section financial statement.** This should be prepared and reviewed at the section board meeting. The frequency of recording transactions and preparing financial statements will depend on the size of the section and the volume of transactions.
- **Retention.** All records identified in the schedule (refer to Table A) as having a permanent or specific retention period should be transferred from outgoing to incoming officers and maintained for the appropriate term. It is also recommended that a list of all records in existence be maintained.
 - **Record Retention (General Policy):** Local sections are responsible for maintaining all records to be preserved. Official retention periods as shown on the record retention schedule (see Table A) are based on legal, audit, and/or management requirements and refer to minimum times for retaining records.
 - **Record Retention (General Responsibility):** Responsibility for the implementation of the policy and use of the schedule by each of the local sections is delegated to the local section president.

Budget and Planning Process

Monitoring

A finance committee or the board of directors should monitor expenditures, comparing them with the budget and ensuring that funds are not being spent for items that were not approved by specific action of the board. The Audit Committee (if the section has one) or designee reviews the financial records periodically to ensure proper handling, and performs an annual audit. Audits should be performed by at least two section members. Local sections with annual gross receipts in excess of \$50,000 should consider using outside, independent auditors.

Budgeting

At the start of the section year, the Finance Committee (or president and treasurer) will prepare a budget. The budget should be established based on income and expenses for the past year; expected unusual expenses; increases or decreases in membership, meeting, or activity costs; and new programs. The budget is approved by the board or Finance Committee. After reviewing the planned budget, consider the sources of income (dues, seminars, etc.) to determine whether price increases are needed.

Budget items are classified as follows:

Revenue (or gross receipts) of the section can be classified as:

- Local dues;
- Meeting and special events revenue (registration fees, exhibit booth revenue);
- Educational courses and symposia revenues;
- Newsletter advertising; and
- Interest and dividends income.

Expenditures (or disbursements) can be classified as

- Operating expenses (stationery, supplies, postage, board expenses, etc.);
- Program committee expenses (meeting notices, speaker, projection machine, rental of meeting room, telephone, clerical);
- Publicity committee expenses; and
- Other expenses (scholarships, donations, etc.).

Cash Management

- Local sections should accumulate a prudent reserve of cash to conduct normal activities and pay expenses. 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 are used for immediate, short-term local section needs. Interest-bearing checking accounts, NOW accounts, and money-market accounts with check-writing privileges may be used at the discretion of the board.
- Cash greater than short-term needs should be kept in interest-bearing accounts with relatively short maturities. Certificates of deposit (CDs), money-market mutual funds, or short-term government bonds with maturities of 30, 60, or 90 days or even six months or one year may be used.
- Money not needed for more than one year may be invested in long-term instruments such as CDs with maturities of a year or more, intermediate-term government bonds, government guaranteed mutual funds, or treasury bonds. Local sections normally should not invest in equities, or uninsured or unsecured investments. Quality of the investment (i.e., the security of the instrument or institution that issues it) is always paramount. Approval of the board should be obtained for any investment.

- Require at least two signatures for changes in accounts of institutions or establishment of new accounts.

Federal Tax Matters

Federal EIN

The local section must have a federal EIN. The EIN identifies to the IRS that the section exists, and steps must be taken to ensure that the IRS also recognizes the section as nonprofit and exempt from federal income tax. Contact AIHA staff to ascertain whether the local section's EIN number is on file.

Federal Tax Exemption

AIHA is exempt from federal taxes under Section 501(c)(6) of the IRS Code. Local sections are not automatically considered a part of the national not-for-profit organization and therefore must make a one-time request for special filing status through AIHA. To fall within AIHA's exemption (group exemption number 5113), the local section must submit a letter of intent (see letter at end of this Chapter) and a federal EIN to the national office. These should be forwarded within 30 days of the section's inception.

Annual Federal Return Form 990, 990-EZ or e-Postcard Form 990-N

Local Sections must file an annual Return of Organization Exempt from Income Tax (Form 990 or 990-EZ) or submit an annual electronic notice (Form 990-N), depending upon the organization's gross receipts and total assets.

If the Local Section has gross receipts less than \$200,000 and total assets less than \$500,000 at year end, it can file Form 990-EZ instead of Form 990. If the Local Section normally has annual gross receipts of \$50,000* or less, it must submit Form 990-N if it does not choose to file Form 990 or 990-EZ. The Form 990, 990-EZ, or 990-N must be filed no later than the 15th day of the 5th month following the end of the section's accounting year (for a calendar year organization this is May 15th).

Failure to file an annual return or submit an annual notice as required for 3 consecutive years will result in automatic revocation of a local section's tax-exempt status. To reinstate their exempt status local sections will need to apply for reinstatement of exemption by filing either Form 1023 or Form 1024, and pay the appropriate user fee (use of a tax professional is recommended). * Please refer to the current IRS guidelines.

Federal Annual Group Tax Exemption

AIHA requests information each June from local sections to comply with the requirements of maintaining its group Federal tax exemption. Alternatively, a local section may apply for its own exemption determination letter by filing Form 1024, providing detailed information about its activities and finances, and paying a user fee to the IRS. Because of the complexity of the

application, it is recommended that it be completed or reviewed by a lawyer or accountant familiar with exempt organizations. The local section should receive a favorable determination letter within six months after filing. In view of the group exemption, AIHA sees no benefit to a local section applying for a separate determination letter.

Additional Filing Requirements

If the section's annual revenues are comprised of at least \$1,000 of "unrelated business income," Form 990-T must be filed. Unrelated business income is generated by income-producing activities outside the scope of the association's tax exempt status, such as revenue from the sale of advertising, mailing lists, or unrelated items such as T-shirts, mugs, etc. Form 990-T is due no later than the 15th day of the fifth month following the end of the section's accounting year. See Table B for brief descriptions of additional IRS forms and requirements. Forms and information can be obtained from local IRS offices or The Internet at www.irs.gov.

State Matters

State Tax Exemption

In nearly all states, local sections should qualify for exemption from tax on net income. It is recommended that sections use the services of a certified public accountant or lawyer who is experienced with nonprofit organizations.

Additional Taxes

Local sections may also be subject to payment of state sales tax on purchases; collection and payment of state sales tax on sales of books, videos, etc.; payment of state or local business franchise or gross receipts taxes; and payment of state or local personal property taxes.

Incorporation

It is recommended that all local sections be incorporated in their states. Table D lists some advantages and requirements of incorporation. Because important legal and tax implications vary among states, it is in the best interest of each local section to work with an attorney familiar with possible complexities in state laws for nonprofits.

Commonly Asked Questions

Question: For a member's employer to pay local section dues, the company has informed us it must create a vendor file for the local section and has asked us to answer the following questions: (1) What is our federal taxpayer identification number? (2) Is the local section incorporated? (3) Is the section a tax-exempt organization?

Answer: (1) The federal taxpayer identification number is your EIN. If you do not know your number, contact AIHA staff. (2) This information should be in your section's historical material. (3) All AIHA-approved local sections are exempt from federal income tax under AIHA's group exemption. To verify exemption from state income tax, check with your state agency or section's historical records.

Question: What is the section's fiscal year?

Answer: Your section's fiscal year should be specified in your bylaws. It is up to your local section to determine the fiscal or operating year, and it could be based on the calendar year, the one-year term your officers serve, etc.

Question: Is it necessary to register as a nonprofit in our own state?

Answer: AIHA recommends that your local section register or incorporate in your state. Contact your state government office for information.

Question: Our joint conference two years ago brought in revenue of more than \$50,000. The proceeds were immediately distributed as a grant. Must we file a Form 990 and file some sort of correction, since it was two years ago?

Answer: Although you have expensed the proceeds in the form of a grant, it doesn't affect the requirement for completing the Form 990 or 990-EZ. Gross receipts (revenue before expenses) are the consideration here. Regardless, the form must be completed only if the income in two out of the three complete fiscal years exceeded \$50,000.

Question: We loaned our treasurer \$400. When he moved and left the association, the money was paid back to the local section. We are now completing a Form 990. Do we record the money as a debt to the association?

Answer: No. Because the money was paid back, it should be considered a temporary advance. Had the money not been paid back, it would be an expense.

Question: Our bank is withholding federal tax from the interest on our checking account. Should they be doing this?

Answer: No. To correct the bank, complete Form W-9, and state that you are not subject to back-up withholding.

Question: Our local section would like to get a special postal rate for our mailings. The post office says we can receive that rate just for our symposium mailings and not our newsletter if we are registered as an educational institution. Are we considered an educational institution?

Answer: Yes. To receive the special mailing rate, you will be required to file an application with the post office, provide a breakdown of expenditures related to education, and include a sample of the mailing. However, with USPS' new rating policy, non-profit rates are hard to receive.

Question: Our local section president, who owns her own consulting business, assigned her employee to complete a couple of hours of clerical work for the local section during regular business hours. She is now asking the section to reimburse the company for her employee's time. Is this legal?

Answer: Technically, it is legal, but this situation may generate questions from the members. AIHA discourages such "related party" transactions, which may lead to the appearance of impropriety. Members may question whether the price was right for services rendered and why the person was being compensated when members have volunteered their time. Also, if you pay an individual more than \$600 in a calendar year, you must give him or her a Form 1099 tax form.

Question: We are holding our next meeting at a new restaurant. We have been asked by the restaurant to prove we don't have to pay sales tax. Does our exemption from tax under AIHA's group exemption include sales tax?

Answer: No. Your local section is covered under AIHA's group exemption from federal income tax. You should apply for exemption from state sales and income tax with your state IRS office.

Question: We aren't sure if we have an EIN. How do we find out?

Answer: Check with the AIHA staff. All AIHA local sections should have an EIN on file at AIHA headquarters.

Question: We had a net loss on the sale of our T-shirts. Must we still file Form 990-T to report unrelated business income?

Answer: Yes, if the gross receipts (revenue before expenses) exceeded \$1,000. Your return would show the loss and no taxes would be due.

Question: If our local section serves alcoholic beverages at a meeting or conference, will our section be held liable for the acts or injury of members?

Answer: The laws of every state differ, and therefore the local section should inquire about the laws where the meeting is to occur. Common “dram shop laws” impose liability only on those who sell alcohol to individuals who become intoxicated. So, your local section may be liable if it operates its own cash bar at a meeting or an open bar, with or without a bartender. However, under “social host laws,” the local section may be liable for the acts of an attendee even if the alcohol is provided free. In light of these laws, some general rules should be followed. Never serve liquor to anyone who is or may be intoxicated. Provide a trained bartender, rather than allowing self-service. The section may also consider employing a catering service that has proper insurance. The section may also wish to purchase an insurance policy to cover any potential liability. For meetings in hotels, employ the services of the hotel in serving alcohol, and require that it maintain adequate insurance. Require also that an indemnification clause be included in the hotel contract allocating liability to the hotel.

Question: Our section is setting up a state governmental affairs organization (SGAO) and a new bank account. Do we need a new EIN?

Answer: Your section has two options: (1) Use the local section EIN and include SGAO receipts when calculating annual receipts; or (2) apply for a separate EIN and calculate receipts separately.

Table A: Record Retention Schedule

Retention Type	Period
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Banking

Cancelled Checks (if available)	Four years
Cash Receipts and disbursements	Three years
Budgets	Discretionary
Bylaws/record of bylaw changes	Current (AIHA National keeps a Permanent record)
Contracts	10 years after expiration

Correspondences

Internal	Discretionary
External	Discretionary
Dues Records	Three years
Membership Directory	Three years

Minutes

Executive council/executive committee	Permanent
Other committees	Discretionary
Newsletters	Discretionary
Operation Manuals	Current
Registration with state as permanent nonprofit organization	Permanent
Tax Exemption	Current (AIHA National keeps a Permanent record)
Technical symposia, exchanges, conferences, etc	Discretionary
Treasurer's report	Five years

Table B. Guide to IRS Forms and Requirements

FORM NUMBER	TITLE	WHEN TO REVIEW/ USE	COMMENTS/ DUE DATE
SS-4	Application for Employer Identification Number (including instructions)	New local sections or those that have lost their EINs; status changes, such as going from unincorporated to incorporated, or name changes	Every chapter must obtain an EIN as soon as possible after formation, even if not required to file a tax return. It is required by banks.
W-2; 941	Wage and Tax Statement ; Employer's Quarterly Tax Return	Used by sections with employees to report wages paid, withheld income, and FICA taxes.	Form W-2 must reach employees by January 31.
940	Employer's Annual Federal Unemployment Tax Return	Filed to report federal unemployment tax by sections with employees	
990	Return of Organization Exempt from Income Tax/Instructions	Local sections must use this form to file if their gross receipts are greater than or equal to \$200,000 or total assets are greater than or equal to \$500,000 at the end of the tax year	Due the 15th day of the fifth month after the end of the calendar or fiscal year (May 15 for calendar year sections.)
990-EZ	Short Form Return of Organization Exempt from Income Tax/Instructions	Sections with less than \$200,000 in gross receipts and total assets less than \$500,000 may use this form. Sections with less than \$50,000 in gross receipts need not file a return.	Due the 15th day of the fifth month after the end of the calendar or fiscal year (May 15 for calendar year sections.)

990-N	Electronic Notice (e-Postcard) for Tax-Exempt Organizations	Sections with gross receipts that are normally \$50,000 or less must file a notice	Due the 15th day of the fifth month after the close of your tax period.
990-T	Exempt Organization Business Income Tax Return/ Instructions	Sections with unrelated business income (including interest) may be subject to UBIT.*	Review Publication 598 to determine whether the section is subject to UBIT . Same due date as Forms 990 and 990-EZ.
1099- MISC	Miscellaneous Income	Sections making payments for services or rent to a sole proprietor or partner of at least \$600 in a calendar year must file.	Same due date as Forms 990 and 990-EZ.
990-W	Estimated Tax on unrelated Business Taxable Income of Exempt Organizations	If UBIT is large enough to qualify, the section may need to file quarterly estimated tax payments using Form 8109.	Prepare a worksheet for the section's records. Use Form 8109 to file and pay deposits to qualified banks by the 15th day of the fourth, sixth, ninth, and twelfth months of the fiscal year.
2758	Application for Extension of Time to File	Use this form to request an extension to file Form 990 or 990-EZ.	Filing deadline can be extended up to six months after the original due date. Form 2758 is due by the original due date of the return.
7004	Application for Automatic Extension of Time to File Corporation Income Tax Return	Use this form to request an extension of time to file Form 990-T.	Automatically extends filing deadline to six months after the original due date. Form 7004 is due by the original due date of the return.

Pub. 598	Tax on unrelated Business Taxable Income of Exempt Organizations	Review to determine when section activities may be generating UBIT.	Business income may include sales of promotional items, advertising revenue, and some other type of income.
Pub. 15 (Circ. E)	Employer's Tax Guide	Review for more information regarding employment taxes	

*Unrelated business income tax (UBIT) applies to regularly carried on business activities that do not contribute to an organization's tax- exempt purposes

Table C: Some Advantages and Requirements of Incorporation

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.

Some requirements for incorporation

- The Articles of Incorporation are filed with the state government official (usually secretary of state). The statutes impose varying requirements for the number of directors, the appointment of officers, meeting notices, and so forth.
- Must meet requirements of state law/Internal Revenue Code.
- Becomes the basic governing document of the corporation and is subordinate only to state law.

Other formalities

- Corporation must have a registered agent in state of incorporation.
- Corporation should obtain certificate of authority to conduct business in each state where it regularly carries on business.
- Annual reports are generally required to be filed in state of incorporation