

FIDUCIARY RESPONSIBILITIES

CSI University was an eye opening experience for many of the attendees. Especially those who attended the “Fiduciary Responsibilities: Show Me the Money” presented by Edward J. McMillan of Forest Hill, MD. As Mr. McMillan began working through the agenda of his presentation it soon became very clear much of his audience was not aware of the financial responsibilities required of individual Chapter Leaders. This group, never known for being shy, was quick to speak up and keep the topic centered squarely on taxation issues. We all left this educational session with important knowledge about corporate financial responsibility that could be used in both our personal or professional lives. Most of us knew we needed to examine the way our individual Chapters functioned with regard to these issues. It was this CSIU experience and the discussion at the Southwest Region Conference Business Meeting that inspired this article. Lee and I want everyone in our Region to be aware of the various financial challenges each of you face and have a basic understanding of your individual Chapter Board Member responsibilities. For those of you directly responsible for the financial affairs in your Chapters, please take extra time to know your tax situation and the documentation required for your various activities.

I have picked out a few of the important items covered in Mr. McMillan’s educational session to help you get started on your journey toward understanding your “*Fiduciary Responsibilities*”.

“Non Profit” organization: A non-stock organization whose profits cannot be distributed to board members, there are no owners. This terminology is confusing and difficult to understand. It is best referred to as a **“Not For Profit” organization.**

Following are the two most common types of “Not For Profit” organizations used today:

501 (c)(3) Status These are typically Charities or Foundations. They are organized for educational, scientific, religious, or charitable purposes and are eligible for grants, favorable postage rates and can be tax exempt. You must have this status to accept charitable contributions from individuals or companies who will claim those contributions as tax deductions on their tax returns.

501 (c)(6) Status These are usually self-governing business associations such as The Construction Specifications Institute, The American Institute of Architects or Chamber of Commerce. Organized for business purposes only. Individual’s dues, contributions and other expenses are not deductible on their individual tax returns.

Can you make a profit in a “Not For Profit” organization? Yes! You can make as much or as little profit as you are fortunate to produce. However, depending on the type of “Not for Profit” organization you are working with you may need to pay income taxes.

This brings us to the hot topic of the session. What do 501 (c)(6) Corporations pay income taxes on?

If your Chapter has gross receipts of less than \$5,000.00 per year there is no need to file taxes, as the IRS is willing to assume that this Corporation does not exist to make a profit. If your gross receipts are over \$5,000.00 per year then you must file for tax-exempt status [501(c)(6) or 501 (c)(3)]. Please check your incorporation documents to verify which Not For Profit status your Chapter is under.

Corporations are required to file form 990 “Return of Organization Exempt from Income Tax” with IRS the initial year and then any year there after should your gross receipts exceed \$25,000.00. In addition to federal forms Chapters need to check on procedures of Not For Profit Corporation’s tax exempt laws with their own State Governments.

Tax-Exempt is also a misnomer. As a 501 (c)(6) Corporation you are exempt from income taxes. However, you are only exempt from income taxes on the income that is directly related to the purpose of the business for which the Corporation was established. This is where it all becomes very gray. The various activities each of your Chapter’s engage in must be scrutinized to determine if it is related to the purpose of your organization. If an activity is determined not to be directly related to the purpose of your organization the income provided by that activity is called an unrelated source of revenue or “Unrelated Business Income Tax”(UBIT).

Advertising revenue is a UBIT therefore advertising is taxable income to a 501 (c)(6) Corporation. It is important to remember you are taxed on the profit of the advertising dollars not the gross receipts of advertising. This is where the importance of documentation comes in. Be able to show what was charged for a sponsorship, what was charged for an exhibit, what was charged for an educational workshop. This type of income (related business income) is not taxable. You can sometimes off set the amount of advertising dollars you report by being creative in your fundraising activities. Possibly put together various packages that include an exhibit, a sponsorship or an educational option along with some form of advertising. Charge more for the related activities than you do for non-related activities. Document, document, document and be consistent!

Be careful about placing advertising in your publications or on your websites. If your Chapter is audited, the IRS will ask for the past year’s monthly publications. They will look at the content of the publication and charge income tax on the percentage of advertising in the publication regardless of what you charged the vendor for that advertising.

I believe we all have advertising income or some other form of unrelated business income in our annual receipts. You may want to consider developing a line item in your budget to account for UBIT expense.

Other items of discussion included:

Officers and Directors Liability Insurance is recommended for each Chapter. CSI has an agreement with **National Affinity Services Inc., formerly USA Services Group**, you can access them from the csinet.org website under Membership. You will be able to customize these policies to fit your individual Chapter needs.

Certificate of Authority: Have a legal document stating whom the Board has selected to have authority to sign large contracts (financial commitments) on behalf of the Corporation. Also stipulate what is considered a large contract. (This should be in your chapter policies)

Chapter Treasurer shouldn't sign checks! Have the Treasure prepare checks for signature with appropriate back up. The Chapter President or other designated Board Member will then review the back-up and sign checks.

Open up bank statement as soon as you receive them! The bank holds you accountable unless you notify them quickly of any fraudulent activities. It is recommended that a copy of the bank statement be mailed to the Treasurer's home address and well as the original sent to the business address.

Check stock must be non-scan able stock! This looks like regular check, once scanned embedded in the check is wording "not an original document" or something similar.

Annual Audit: Check your Chapter bylaws, if a certified audit is required you must have your Chapter finances audited by a Certified Public Accountant. If your bylaws state the Chapter's finances must be reviewed by an audit committee then you can select a committee of Chapter members to go through this process.

The above information gives you a brief overview of the financial issues touched on during our CSIU educational session. There is much more to this story that each of you can research according to your individual Chapter activities and bylaws. The audiotape recorded during this session has been ordered for each of your chapters. It is our hope that your Chapter Board Members will listen to this session together and determine the best plan of action to insure a healthy financial future for your organization.

If you have any questions or would like help finding more tools and resources for this process please contact me. I will be happy to help. Good Luck!

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