

INSURANCE COVERAGE

The following insurance policies should be considered by each region to address basic exposures of operation:

1. **General Liability** – Insures against third-party claims alleging bodily injury or damage to property of others for which the region may become legally liable, arising out of regional operations/activities. Limits of liability include \$1 million per occurrence with a general policy aggregate of \$2 million.
2. **Professional Liability** – Protects the officers and directors as well as volunteers acting under the direction of the region against damages for claims resulting from negligent or wrongful acts in the course of their duties. Usually a limit of \$1 million coverage is recommended; however, the insurance industry often uses a formula of two times of annual revenue. Chapter officers can be included under the regional policy, but they must be indicated on the application for the coverage to apply.
3. **Fidelity Bond** – Provides protection for the region on the loss of money, securities, and other property of the region resulting from fraudulent or dishonest acts committed by an officer acting alone, or in collusion with others. The premium is based on financial information supplied with the application and each region's internal controls.
4. **Meeting/Show Cancellation** – Covers regional cost, expenses, loss of revenue, and/or commitments resulting from cancellation, postponement, or curtailment of a meeting due to acts of God. Several events can be combined under one policy, thus reducing the overall cost incurred when purchasing a separate policy for each event. The premium is based on total anticipated revenue. Earthquake, hurricane, and other seasonal conditions should be considered, but these will cause additional premium costs.
5. **Board/Officer Travel Accident** – Provides benefit payments for accidental death or dismemberment of board members, officers, or volunteers while traveling within the United States or internationally on official business of the region as described by a specific class under the policy form. Limits can be designed to address specific needs.
6. **Non-owned & Hired Automobile Liability** – Provides liability coverage for your members who use using their owned, leased, hired, or borrowed automobiles but only while doing business on behalf of the organization.

Note: Many regions carry insurance for their activities through their local host institution. If this is a viable alternative, regions should pursue coverage that way; however, it is imperative that regions maintain proper insurance coverages to protect both the association and its officers. It is recommended that regions procure insurance coverage for general liability for the annual conference and Directors' and Officers' liability for its board members.

ACCOUNTING & FINANCIAL REPORTING

I. Accounting

Accounting measures the results of business transactions. It provides financial information including predictive one for making important business decisions. There are two accounting methods: cash basis and accrual basis. Cash basis accounting records revenue and expenses when they are received in cash and paid in cash. Accrual basis accounting recognizes revenue in the period when it is earned and records expenses in the same period of the revenue for which the expenses are incurred. Most businesses, including the APPA office, use the accrual method. APPA regions may be using the cash method.

II. Financial Statements

A. Balance Sheet (Statement of Financial Position)

A balance sheet shows the financial position of a business at a specific date by summarizing assets, liabilities, and net assets (owner's equity).

B. Statement of Revenue and Expenses (Income Statement or Statement of Activities)

This statement summarizes the performance of a business by matching its revenue and related expenses for a specific accounting period. It shows the net income or net loss.

C. Statement of Changes in Net Assets

This business statement provides comparative information about the residual value of a business.

D. Statement of Cash Flow

This statement provides information about the resources of cash receipts and cash payments.

III. Examination of Financial Statements

Regional officers must **pay due diligence** overseeing the financial operation of the region. Independent certified public accountants can provide different levels of services including a full audit. Regions may consider hiring a local public accounting firm for the necessary services.

IV. Reports required by the Internal Revenue Service (IRS)

Form 990 and Form 990T are introduced here. For more information and instructions on how to use the forms, please go to www.irs.gov.

A. Form 990, Form 990 EZ, and 990N

These forms are for an annual information return for income-tax-exempt organizations. Form 990 EZ can be used if the organization's gross receipts are

less than \$200,000 for the reporting year and total assets are less than \$500,000 at the end of the year 2010. IRS may change this amount in future years. Form 990N Electronic Notice (e-postcard): Small tax-exempt organizations with annual gross receipts less than or equal to \$50,000 must file this form. This may apply to APPA chapters.

B. Form 990T

This form is for business income tax returns for exempt organizations to report their unrelated business income of \$1,000 or more. If certain income is generated by an activity that is not substantially related to the organization's exempt purposes, that income is taxable as unrelated business income. Income generated from advertisements in periodicals of exempt organizations is a typical example of unrelated business income.

C. Public Disclosure Requirement

The law requires that Form 990, Form 990 EZ and 990T (if filed) must be available for inspection by interested members of the public. Exempt organizations are required upon request to furnish a copy of the documents to such persons without charge other than a reasonable fee for any reproduction and mailing costs.

Business conducted by regions and accounting needs may differ. Depending on the needs of a region, the regional treasurer/secretary may consult with a local CPA firm for assistance.

V. **Other Accounting Issues**

1. Change of address must be filed to IRS whenever necessary.
2. Donation Disclosures
 - a. A written acknowledgment must be issued to any donor who has contributed \$250 or more. If a region provided goods or services to the donor in exchange for the contribution, the written acknowledgment must include a good faith estimate of the value of such goods or services.
 - b. If a donation payment is made partly as a contribution and partly for goods or services such as concert tickets, the disclosure requirement applies to the contribution amount of \$75 or more
3. If a region pays the travel expenses of the spouse of an officer or a director, the expenses are considered taxable income to the director or the officer unless the spouse's travel has a justifiable business reason that can be adequately substantiated.
4. The annual report must be filed with the appropriate state agency of the state where the region was incorporated. The registered agent, an attorney or law firm, usually in contact with a corporation for the filing requirement. The address of the regional

representative must be updated with the registered agent. State rules on this issue may differ.

GROUP TAX EXEMPTION

A group exemption is a ruling or determination issued by the Internal Revenue Service to a parent organization recognizing on a group basis the federal tax exemption of its affiliate or subordinate organizations. Being part of a group tax exemption will have no impact on the way the affiliates operate on a day-to-day basis. In addition, each affiliate's reporting requirements to IRS will not change, i.e., each affiliate must file 990 or 990EZ or 990N.

To maintain a group exemption for its affiliates, a parent organization must update the IRS once a year on any changes in the purposes, character, or method of operation of the affiliates, and the names, addresses, and employer identification numbers of affiliates that have been added or terminated during the year. Accordingly, affiliates must report any changed in such areas to the parent organization.

Filing for group tax exemption will lessen the burden of each region's own effort to file for its own tax exempt status. However, each region may make its own decision whether to participate in the filing process.

Currently, Regions: SRAPPA, PCAPPA, CAPP, RMA, and Chapters: GAPPA, FLAPPA, DFWAPPA, NCAPPA, OACUPPA and NJAAPA are under APPA's group exemption.

The Group Exemption Number is: 8221, and this number must be on their regional reports to IRS.