

Dear Local or Region Leader:

All of our volunteer leaders need to be familiar with basic financial procedures and reporting requirements. This book is intended to be a resource for that purpose. While no one is expected to memorize everything in this book, you should familiarize yourself with its contents. You will probably want to read through it to see if there is anything that you can do to improve your current administrative procedures and to make sure that you are not missing any key federal or state reporting requirements.

As you go through the year, please realize there are always people that you can call about financial issues who appreciate your efforts and have dealt with problems such as the ones you will encounter. The telephone number for IEA Headquarters in Springfield is 1-800/252-8076. Your call will be answered by the switchboard operator during normal business hours; just ask for the individual whom you want to speak with. If you call outside normal business hours, you will get a recording and will then be prompted to enter an extension number. By entering the extension number, you will be connected to the person you are seeking (or his/her voice mail). For routine inquiries, e-mail works well also.

Generally speaking, we should be your primary contacts for most inquiries. We can be reached at:

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Specific questions or issues regarding membership processing can be answered by any of the people in that department; just ask for Membership Processing when you call the main telephone number. If you need further assistance with resolving an issue, please contact the Membership Processing supervisor, Susan Morenz, at 1-800/252-8076, ext. 2221 or at [susan.morenz@ieanea.org](mailto:susan.morenz@ieanea.org).

The IEA website ( [www.ieanea.org](http://www.ieanea.org) ) also contains a *Financial Procedures* section that includes the *IEA Financial Procedures for Locals and Regions* handbook, the *IEA Membership Processing Guide*, links to commonly-used IRS publications and forms; online scheduling for on-site workshops; Frequently Asked Questions, etc. We urge you to familiarize yourself with this section of the website. To get to this area of the website, click on "RESOURCES" on the home page.

Thank you for reading this manual and attending to policies and procedures pertaining to membership and accounting. Good luck in your job this year! Remember – contact us if you need help.

Sincerely,



**Al Llorens**  
IEA-NEA Secretary-Treasurer

**Randy Welch**  
IEA-NEA Director of Business Services

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## **Overview**

***Financial Procedures for Locals & Regions*** has been reorganized so that you can either read entire sections (like a novel) or look up specific topics (like an encyclopedia). The handbook is divided into “Administration and Fiduciary Oversight”, “Regulatory Requirements”, and “Technical Tasks”. Each section has its own table of contents. We hope this material is beneficial to you, and we always welcome your thoughts on new material to add or better ways to present what is there now.

This book is intended for use by the leaders of the IEA’s locals and regions. If you are an elected official of a local or region, you have taken on a “fiduciary duty” to safeguard your organization’s assets, use its resources for the benefit of its members, keep your members informed as to the financial position and operating results of their organization, and to maintain your organization’s reputation by avoiding even the appearance of dishonesty, conflict of interest, or other unethical situations. *Financial Procedures for Locals and Regions* is intended to demystify this concept and to help you to perform your role without having to “reinvent the wheel”.

To fulfill your fiduciary duty, you need to have a basic working knowledge of everything contained in this book. You also need to support and comply with your organization’s internal controls, accounting procedures and budget process, all of which will be explained later.

If you are the region chair or local president, besides the above, you need

to “set the tone” in terms of your organization’s commitment to proper financial procedures. When there is a conflict between expediency and proper controls, you need to consistently rule in favor of controls. It is also your responsibility to oversee the budget process, ensure that an annual audit occurs, and make sure that all external reporting deadlines are met. While others will probably do most of the work in these areas, it is your responsibility to see that they get done. You must also be aware of any state and federal political reporting/recordkeeping requirements that pertain to your local.

If you are the region or local treasurer, you will probably be doing most of the work in terms of bookkeeping, financial reporting, and external reporting. You will also be heavily involved in the budget process.

Your responsibility is to see that these duties are done timely and accurately and that proper financial procedures are followed. In case of questionable transactions, you are expected to refer them to your region chair/local president and make sure that an acceptable solution is reached. And finally, you must make sure that your local stays current with its transmittal of IEA-NEA dues.

To make sure that everything is done correctly and that nothing slips through the cracks, we recommend that you prepare an annual calendar and a procedures book. The calendar would include all annual deadlines (budget, audit, IRS reporting requirements, etc.), all monthly deadlines (financial reports, payment of IEA-NEA dues, etc.) as well as anything else that needs to be done.

The calendar should include a due date for each item and should include the name(s) of the individual(s) responsible for each task. It then becomes the local president's/region chair's job to make sure that the organization follows the calendar.

Your procedures book should address any task related to financial procedures that is not intuitively obvious. There should be a procedure for preparing the annual budget, arranging for the annual audit, documenting of expenditures, etc. The book should also include any information that needs to be passed along to the next generation of leaders (e.g. your organization's constitution, bylaws, taxpayer identification number, banking arrangements, etc.).

Preparation of such a book takes time, but once it's completed, all you need to do is to review it annually to make sure it is still up-to-date (this annual review, of course, should be listed on the calendar). The time saved from avoiding misunderstandings, reinventing the wheel, and running afoul of outside authorities should more than make up for the time it takes to develop and maintain the book.

**REMEMBER:** Your association is accountable to its members, and you are accountable to your association. Because of this, it is vital that your financial activities be conducted above reproach, in an open manner. The best way to ensure this is to follow the guidelines contained in this handbook.

**ADMINISTRATION AND FIDUCIARY OVERSIGHT**  
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## **Constitution and Bylaw Requirements**

All newly-elected local leaders should receive a copy of these two documents. Leaders should review them annually to ensure compliance with any requirements pertaining to such items as the local's fiscal year, budgeting, having an annual audit, etc.

## **Fiscal Year**

An organization's fiscal year is its 12-month accounting period. A fiscal year ends with the last day of a selected month, and the next fiscal year begins with the first day of the following month. A local might say, "Our fiscal year ends on June 30." Or it might say, "Our fiscal year runs from July to June."

A new organization should select a fiscal year that corresponds to its normal cycle of operations. For schools, this is usually the school year. The fiscal year should ideally end after the business for one school year has wrapped up and before the activity for the next year begins. A natural fiscal year for an IEA local would be one that begins in June, July, August or September, depending on when the school year begins and ends. A region's fiscal year is set by Board policy; regions must report using a September-August fiscal year.

The IRS has a fiscal year on file for all of our locals which it uses to determine the due date for their annual information returns. When a local applies for a Taxpayer Identification Number (TIN) for the first time, it has the opportunity to select a fiscal year. If it does not do so, the IRS uses a "default" year-end of June 30.

## **Annual Audit – Large Associations**

Larger associations should strongly consider the engagement of an independent auditor (CPA) to provide an annual certification of the accuracy of the association's financial records. This external review will provide assurance to members that their funds are being handled and reported correctly.

An audit is a spot check of information, not an exhaustive review of all financial transactions. Auditors are charged with determining the accuracy of the financial statements only "in all material respects". It does not guarantee 100% accuracy. Auditors are not charged specifically with uncovering fraud. Since they rely heavily on management to provide information and documentation, small-scale fraud is extremely difficult for auditors to detect, particularly where misdeeds involve collusion.

An important part of the audit is the written opinion that is always prepared by the CPA regarding the financial statements. A favorable "unqualified" opinion gives credibility to the financial information contained in the statements and makes the information more reliable to parties having an active interest in the association's finances (e.g. executive officers, board of directors, members, IRS auditor, and local banker). It also tends to reassure members and new officers that their funds are being appropriately recorded and used.

Financial statements can also be examined by a CPA with less time and cost than a complete audit. This process is known as a “review”. A review consists of inquiries of personnel and analytical procedures applied to financial data. A review requires less time, hence incurs less cost; however, it results in a lesser degree of assurance by the CPA. Instead of saying that the financial statements “present fairly”, the CPA does only enough work to be able to say, “I am not aware of any material modifications that should be made in order for the financial statements to be in conformity.” This is called “negative assurance” and does not give as much credibility to the financial statements as an audit does. Nevertheless, a review may meet the needs of some smaller associations.

Considerations in selecting an accounting firm would include:

- Is the firm licensed to practice public accounting in Illinois?
- Obtain and review a copy of the firm's Peer Review Report.
- Is the firm a member of the following organization(s):
  - American Institute of Certified Public Accountants?
  - Illinois CPA Society?
- Is the firm able to provide the following references:
  - Three not-for-profit clients of similar size to your association?
  - At least one union client?
- The firm should provide formalized documented responses to the following questions:
  - How can the firm demonstrate its familiarity with the accounting and audit issues affecting unions?
  - What separates this firm from other audit providers in the area?
  - How is the firm able to show its commitment to provide service to the not-for-profit sector?
  - How do the firm and its staff stay on top of audit, tax and regulatory issues affecting unions/not-for-profits?
  - By what means will the audit firm add value to the audit process?
  - If you need to consult with the firm for advice throughout the year, what is their policy on determining when they would and would not charge for those services?
- Is the firm familiar with the following tax issues:
  - Unrelated Business Income?
  - Form 990 reporting issues?

### **Annual Audit – Smaller Associations**

Smaller associations and IEA regions should establish an Audit Committee to perform an internal review at least once a year. The Audit Committee should not include the treasurer or any other individual who is responsible for bookkeeping, handling cash, etc.

Since it is considered a "best practice" to include someone on your committee who a) has financial expertise, and b) is not a member of your local, the treasurer for a nearby local or region would be a good resource to your Audit Committee.

The Audit Committee should base its work on a list of audit procedures that is agreed upon by the governing body before the review takes place. This will ensure that the Committee performs the job that is expected of it and eliminates the need for "reinventing the wheel" every time a review is performed. See Appendix 1 for an example. This checklist also serves as a concise description of what a good bookkeeping and internal control system looks like.

The checklist should be used as a guideline. Since every organization is different, modifications should be made, as necessary. For small organizations, all financial transactions, board minutes, bank statements, etc. should be examined. For large organizations, a sampling is usually sufficient.

Most audits will include a review of payments made during the year to verify that expenditures were made for properly approved purposes. Each payment should be checked for the proper authorization signature(s) and for adequate supporting documentation that clearly indicates what the payment represents. The Audit Committee should also examine bank reconciliations, bookkeeping records and procedures, and all other financially-related areas.

Upon completion of the internal audit, the Committee should file a written report to be approved by the governing body and included with the permanent records. Here is an example:

<p>TO: _____ President (or Region Chair)</p> <p>_____ Education Association (or Region)</p> <p>We have performed the procedures enumerated in the checklist for review of financial records. Based upon completion of those procedures we have satisfied ourselves that the Association's (Region's) cash basis transactions for the twelve-month period ending _____, 20__, are accurately and reasonably recorded in the books and records, are adequately documented, and were for authorized purposes.</p> <p>_____</p> <p>Audit Committee Chair</p> <p>_____</p> <p>Date</p>
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## **Annual Budget**

**Overview:** A budget is a written document that expresses the goals and objectives of the organization in terms of dollars. It is a method of establishing priorities for the allocation of available funds. It represents the financial plan for the organization. It is a guideline for spending and should not be considered absolute or inflexible. It is a combination of value judgments, choices and compromises. Combined with a financial report, it becomes a valuable program evaluation tool. The budget should be finalized and approved before the beginning of each fiscal year.

Strategic budgeting provides answers to the following questions:

- What do we want to achieve?
- How do we plan to pursue our goals?
- What will it cost?
- What resources are available and when will they be received?
- What did it cost?
- Did we achieve our goals?
- Are we on track?
- The follow-up or evaluation process is one of the most important parts of budgeting. This is achieved through variance analysis which compares the budget to the actual expenses and attempts to identify the reasons for the differences. This is discussed in more detail later in this section.

Regions need to present their detailed budgets based on the guidance in Appendix 5. Otherwise, the material in this section applies equally to locals and regions.

**Budget Process:** The steps that follow are suggestions for your consideration. Evaluate them as they relate to your organization and the needs of your members. Your constitution and/or bylaws may have provisions that impact the budget process.

1. Select a Budget Committee. The Committee should include the treasurer, the local president-elect or region chair-elect, and a reasonable number of at-large members. Keep this committee fairly small, even if your association is large, since later steps in the budget process will involve additional members.
2. Establish a timetable. Work back from the date the budget must be adopted by your governing body or other group.
3. Develop a method for identifying members' requirements and/or requests. This may be accomplished through a general membership meeting, building meetings, a member questionnaire, informal meetings, etc.
4. Gather the requests, requirements and surveys, if used. Distribute these to the appropriate officers and chairpersons of local committees for development of programs that reflect the results. Submit budget requests to the Budget Committee within the timetable established.
5. Compile the results as submitted by the program committees and categorize them under headings (e.g. negotiations, committee meeting expenses).

6. Submit the compiled results to the officers and executive board for consideration and evaluation. Realistic income projections must be developed as it determines your association's ability to finance the proposed programs and expenses. This will mainly consist of forecasting membership levels and determining the amount of local dues to be charged. See Appendix 2 for some additional hints on how to compile the budget.
7. Following approval of the budget, submit it to the treasurer for implementation to ensure the budget format conforms to his/her bookkeeping system.
8. Present the proposed budget to the members, advising them of any changes in local dues, if applicable.

Included in the appendices are two sample budget worksheets. Worksheet A (Appendix 3) would be appropriate for a large local, and Worksheet B (Appendix 4) would be appropriate for a small one. Regions should refer to Appendix 5. You should prepare your own worksheet based on these examples and your specific needs. In all cases, begin by including the current, year-to-date income and expenses plus projected income and expenses for the remainder of the fiscal year. This may be used as a basis of comparison and reasonableness.

For large locals, an assigned number can identify each major program. Coding will make it easier to refer to programs on checks and the association books.

Once the budget is approved, its job is not complete. Your budget should be an integral part of your monthly financial report. By comparing the "plan" (the budget) with "reality" (your actual financial reports), you can identify situations that need to be corrected, determine whether compensating actions need to be taken, and recognize things that can be improved in the following year's budget process. Some simple examples:

1. Halfway through your fiscal year, your variance analysis shows that your newsletter cost is significantly exceeding your budget. Upon investigation, you find that your vendor has begun using single-sided printing instead of double-sided. This is costing you more in paper and postage costs. You instruct the vendor to return to double-sided printing.
2. Your Negotiating Committee costs have significantly exceeded your budget, due to an unpleasant stalemate with your employer. Your analysis shows that if you spend all the remaining funds in the other line items, you will run out of money well before the end of the fiscal year. You review the alternatives and decide that the best way to deal with the unexpected variance is to eliminate several scholarships that you had budgeted to provide later in the year. While not a pleasant outcome, by recognizing the problem early in the year, you were able to take action to deal with it before you actually ran out of funds.

- The cost of your training meetings, which involve a meal, have exceeded budget. Upon investigation, you find that the restaurant that catered the meetings in the past has gone out of business and the only other caterer in town charges significantly more. After looking at the alternatives, you determine that you do not wish to change the current arrangements; therefore, you will have to budget more for this line item in the upcoming year.

**Variance Analysis** should accompany the treasurer’s report. The “rules” for this analysis are a) it should only address the line items that are above or below budget by a meaningful amount, b) the reason for the variance and planned corrective actions should be included, and c) the analysis must be presented in a readable form. A popular format is tabular, as in:

<u>Line Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>	<u>Comments</u>
Newsletter Printing	\$500	\$700	-\$200	Needed to publish an extra issue, due to the strike. Will eliminate an issue at the end of the year to compensate.

An alternative is to use a narrative format. If you use this system, we suggest that you devote a separate paragraph to each variance, as in:

*“Newsletter Printing was over budget by \$200 (40%). We had to publish an extra issue in October, due to the strike. At this time, we plan to eliminate the April issue of the newsletter to get the cost back in line with the budget.”*

If the above has not convinced you that your local needs to have a budget, please consider the following. IEA Board Policy 8.3 (provided on the following page) allows the IEA to provide financial aid to locals that incur expenses for mediation, arbitration and fact-finding. To qualify for consideration for this assistance, locals have to pass two tests. They must have local dues of at least \$15 per year, and they must have included in their budget a line item for mediation, arbitration and fact-finding in the amount of at least \$3 per member. While you can meet the first requirement without a budget, you cannot meet the second. Food for thought.

### **Financial Assistance for Mediation, Fact-Finding, and Arbitration (locals only)**

*Board of Directors Reference Manual, Board Policies*

- The IEA-NEA will forward the arbitration filing fee to any chartered local association, upon receipt by the Director of Field Services of the necessary completed forms of the IEA-NEA and of the findings of the arbitrator(s) and/or fact-finders from deliberations conducted in the local association pursuant to negotiations or grievance processing.

Any chartered local association involved in arbitration cases will be reimbursed by the IEA-NEA for at least 50% of all costs incurred by said local association in regard to that specific case. The use and/or choice of legal counsel must be approved by the IEA-NEA to qualify for reimbursement under this section.

**8.2** The IEA-NEA will come to the aid of chartered local associations who suffer from financial hardship in regards to mediation, arbitration, and fact-finding. For a local association to qualify for “hardship reimbursement” the following factors should exist:

A. Chartered local associations should have local dues of at least \$15.

**B. Chartered local associations should have budgeted – for mediation, arbitration and fact-finding pursuant to negotiations and grievance processing – an amount of not less than \$3 times the number of members in the local association.**

C. This budgeted amount shall have been expended for mediation, arbitration and/or fact-finding. Any IEA-NEA reimbursed funds under items 1 and 2 above shall be in addition to the budgeted amount stated in 3B.

D. Other factors to be considered:

1. Overall financial condition of the local, including the amount of local dues.
2. Others as deemed pertinent by the Executive Committee of the IEA-NEA.

### **How Much Money Should We Have?**

This is a common question. Generally, local leaders ask this because they are afraid of somehow running afoul with the IRS by stockpiling too much money. Relax! Under normal circumstances, the IRS is not going to take an interest in the size of your bank balance. They are more concerned with how you spend your money than how much you accumulate.

It is always prudent to accumulate funds for an unexpected opportunity or emergency. How much you accumulate depends on factors such as the volatility of your membership level, the different types of activities that you engage in, your relationship with your employer, and your members’ acceptance of the need for maintaining “extra” funds.

We suggest that you have a plan in terms of accumulating funds. This will make it easier to explain to your members. Part of the plan could involve brainstorming about a possible “worst case scenario” and estimating how much money it would take to deal with it. Maybe this scenario would involve a sudden drop in membership coupled with a protracted strike. You also should think about having funds in reserve in case an unexpected opportunity develops. Maybe you find that for \$500 you can send some of your leaders to a great educational session that will help them run your local better. If this isn’t in the current year budget, and you have no reserve fund, you might have to pass up this opportunity.

After arriving at a goal for a reserve fund, you should build this into the budget process. It may be that you need to accumulate a significant amount of funds, in which case you might want to raise dues over a period of a few years in order to minimize the “pain” in any one year.

See the following section for suggestions on how to invest your excess funds.

### **Investments**

Another common misconception is that locals or regions should not earn interest on their funds. While this is true of your political action funds, it is not true of your general operating funds. Every dollar that you earn in interest, is a dollar that does not need to be collected in dues.

Some basics on banking arrangements are discussed under “Bank Accounts” in the “Technical Tasks” section. In terms of what types of accounts to invest in, we recommend that you stay away from anything outside of federally-insured banks or credit unions, unless you are a very large local and have investment expertise available. Your basic alternatives are checking accounts, savings accounts, money market accounts, and certificates of deposit.

As noted under “Bank Accounts”, your goal should be to maximize the excess of your interest income over the amount of banking fees that you pay. As an example, a basic checking account usually pays little or no interest while a money market account might pay substantially more. If you just concentrate on maximizing your interest income, you might move all of your funds into a money market account and use it as your operating account. However, since many money market accounts impose a service charge for each transaction over a monthly maximum, you might end up paying more in fees than the amount of “extra” interest that you earn by moving all of your money into the account.

To avoid this situation, many locals have both a checking account and a money market account. They deposit their employers’ dues checks into the money market account, pay their operating expenses out of the checking account, and transfer funds from the money market account to cover those checks whenever their checking account balance gets too low. This is more work than just having one account, but it maximizes interest income while minimizing fees.

For your extra funds that may be needed at any time, your basic alternatives are savings accounts and money market accounts. In general, savings accounts pay very little interest these days. However, for some locals this is the only available “investment” choice because they don’t have enough funds to open a money market account. If you have enough excess funds to qualify for a money market account, at least once a year, your governing body should designate someone to look around for alternatives. They should look at savings accounts and money market accounts at various institutions to make sure that your excess funds are earning the highest possible rate.

Certificates of deposit allow you to earn a higher rate of interest. The price that you pay is that you must “lock up” your funds for a period of time or incur a significant penalty. Generally, certificates of deposit are appropriate as a means of setting aside funds for a specific event that will take place in the future. For example, if you have set aside money as a strike fund and your contract is up for negotiation in two years, you might purchase an 18-month certificate of deposit in order to maximize your interest during the period.

Some locals may have set aside money as an “endowment fund” for a specific purpose. For example, they might have \$5,000 that has been designated as an endowment fund for scholarships. The investment earnings on the \$5,000 would be used for scholarships, while the fund itself stays intact. If you are fortunate enough to be in this situation, it might be appropriate to invest the fund in several certificates of deposit with varying maturity dates.

### **Internal Controls**

Internal control refers to a system of checks and balances designed to minimize errors or misappropriation of assets, maximize the probability of detection if these things occur, and protect the organization overall. It is the responsibility of the president and other officers to safeguard the assets of the organization through a good system of controls.

Over the years, the IEA has experienced several instances of theft of local funds. The common theme in all of these cases is that the situation was allowed to occur because there was no separation of duties (checks and balances) and many of the controls listed in Appendix 6 were not in place. In these cases, individuals who were trusted colleagues, and in some cases long-time friends, were not able to resist the temptation to help themselves to funds belonging to their local’s members.

One of the basics of good internal control is that no one person handles all aspects of any financial transaction. This creates the system of checks and balances. An example would be that the person who approves a bill to be paid, should not be the same person who signs the check to pay it. It may not be easy or practical to involve more than one person in all financial transactions; therefore, your organization may inherently have poor internal control. However, it is the joint responsibility of all officers and the Board to remedy this situation to the extent possible. The first step is an “organizational control” – except in the smallest of organizations, different people should fill the offices of president, treasurer and membership chair.

Appendix 6 lists some basic internal controls that are applicable to most small- and medium-sized organizations. Larger associations will probably have the need for additional controls. Note that “cash” refers to all types of monetary transactions – cash, checks, etc. While all of these controls are important, those presented in **bold** are especially critical.

## **Example of Poor Controls**

A person held the office of president of her medium-sized local. Over time, she took over the duties of treasurer and membership chair as well. Everyone trusted her and was more than happy to let her do all of this work. As time went on, most of the basic controls that were once in place gradually disappeared. Only one signature was required for checks. There was no audit or budget. Financial reports were not prepared. One person (the president/treasurer/membership chair) handled all aspects of the local's finances. No one else looked at the bank statements. Documentation for expenditures was minimal.

The person started writing checks to herself and to "Cash". She spent more and more of the local's funds on herself, which meant that less was available for legitimate, useful programs. The local's reserves, built up over a period of years, were depleted. Because there was no audit and no financial reporting, no one knew this.

After the reserves were gone, the person needed a new revenue source. In her capacity as membership chair, she started intentionally forgetting to send new member enrollment forms to the IEA. After a period of a few years, the local had seventy members whose IEA-NEA dues were being withheld from their paychecks but were not being sent to Springfield. As far as the IEA was concerned, they did not exist. Since the local was receiving these IEA-NEA dues, but was not properly transmitting them to Springfield, the president/treasurer/membership chair could spend them as she chose.

When this situation was finally discovered, the local owed the IEA a great deal of money in dues for prior years. These past dues had to be assessed from the local members over a period of years. The local leaders were shocked at what had been done by their friend and colleague. They shouldn't have been. They let it happen.

## **Signs of Fraud**

### **What is fraud?**

- Theft of funds belonging to the local or region
- Reimbursement for fictitious expenses
- Diversion into a separate account with reimbursement at a later date (stealing the temporary use of the money)
- Theft of funds belonging to the IEA-NEA
- Improper membership reporting
- Failure to pay IEA-NEA dues
- Misleading financial reporting
- Purchase of goods or services from related parties at an inflated cost
- Use of local/region funds for purposes not intended by the governing body

## What are the contributing factors to fraud?

Many experts use the “fraud triangle” concept to assess the risk of fraud in any particular situation. They feel that fraud becomes more likely when:

- Someone has the **opportunity** to commit fraud, due to poor controls and/or lack of oversight.
- Someone has **pressure** to commit fraud: trying to maintain an extravagant lifestyle, unexpected financial obligations, etc.
- Someone can find ways to **rationalize** their fraud somehow: “they owe it to me”, “the last treasurer did it”, “I’ll pay it back later”, etc.



- The "Opportunity" side of the triangle is very important. If an “honest” person has opportunity and a strong incentive, it can become relatively easy to take the next step and rationalize a fraudulent act. However, if opportunity is prevented due to strong controls and oversight, even if a person has a strong incentive and rationalization, it will be very difficult for him/her to commit fraud.

A fairly typical situation is the case of an honest and law-abiding individual who has performed a job for years without taking a dime. Everyone trusts him and because of this, over time the controls and oversight over him are gradually slackened and ignored.

Then the person gets hit with some unexpected medical bills. He recognizes that he can take \$100 to pay a doctor bill out of his employer’s funds without getting caught. He rationalizes this by thinking of all of the extra hours he has worked without pay or recognition. He also tells himself that he will pay it back when his financial situation improves. He takes the \$100 and covers it up by adjusting the books. No one notices. The next doctor bill is \$500. He takes this out of the till, and is not detected. This cycle continues with the thefts getting larger and more frequent. His supervisor and co-workers are oblivious. He stops taking vacations because he is afraid that someone will find his thefts, if they examine the books.

He is finally caught when he becomes ill and has to miss work for a week. The person who takes over his job accidentally discovers the fraudulent bookkeeping entries that were made to cover up the thefts. Everyone is shocked. They shouldn’t be. They let the fraud occur by providing the opportunity. The opportunity just lay dormant for years, until the incentive presented itself. The two joined forces and easily overpowered the willpower of a person who, under other circumstances, would have never taken a dime.

### **Why does fraud go unnoticed?**

With occasional exceptions, there is very little new under the sun in terms of fraudulent business practices. Even schemes based on new technology are usually just variations of time-honored frauds from the past. There is a wealth of literature on this topic including many theories as to why people commit fraud and the common warning signs of inappropriate business practices.

If this is the case, why aren't more frauds or accounting fiascos caught before they get out of control? Unfortunately, most people in a position to do something about a questionable business practice do not know to recognize it. Even if they do, and the signs are all around them, they usually refuse to believe or act on them. This is due to trust or friendship with the person involved, a Pollyanna-like view of human nature or a refusal to get involved (the "ostrich" mentality).

In a volunteer organization in which the people you work with are your friends and colleagues, "trust" can become a barrier to effective business practices. A local president might be afraid to propose that two signatures be required on all checks, for fear that the treasurer would be offended because, "You don't trust me." A treasurer might let the president get away with inadequate documentation of expenses because they went to school together, and she trusts her.

To get past this, all of the local leaders should recognize that inadequate controls and business practices are in no one's best interest. If fraud or other losses occur, the people who allowed the poor system of checks and balances to exist will be seen as co-conspirators or at least as incompetent leaders. Even if it doesn't result in actual fraud, a poor control environment erodes the credibility of the local and its leaders. Conversely, a good system of controls is a kind of safety net for local leaders. If questions about business practices arise, they can use the control environment to demonstrate that they are taking good care of the local's resources.

Appendix 7 lists some signs that can indicate problems with the control environment. These are grouped as follows: RED for "severe", ORANGE for "high", and YELLOW for "elevated".

### **What to do when signs are detected**

In most cases, the signs listed in Appendix 7 are not indications of anything other than poor controls. **Do not jump to conclusions and assume otherwise.** Even the presence of several of the "RED" or "ORANGE" circumstances does not prove that fraud or inept practices are occurring. However, these signs should generate questions and, in many cases, corrective action.

If the situation warrants, there should be an investigation to determine whether past transactions have been handled inappropriately. Resistance to this should be recognized as possibly another “RED” sign. Don’t let “trust” be a barrier here. However, your UniServ Director should be consulted before any sort of investigation begins. He or she can discuss the situation with the appropriate staff in the IEA’s Legal, Business Services, and Field Services Departments in order to determine the best course of action.

**Even when the evidence seems solid, it is important not to accuse anyone of wrongdoing without the concurrence and involvement of the Legal, Business Services and Field Services Departments. Inappropriate or premature accusations can result in serious financial consequences and may also cause serious problems with member relations.**

**PROACTIVE USAGE OF PROPER CONTROLS AT EVERY OPPORTUNITY WILL LESSEN THE PROBABILITY THAT INVESTIGATIONS AND ACCUSATIONS WILL EVER HAVE TO BE MADE.**

### **Conflict of Interest**

Officers and Board members of a local or region should avoid even the appearance of personally profiting from their role with the organization. No such individual, or member of his/her immediate family, should have any financial, business, property, personal or other interest, or engage in any business, transaction or other activity, which might reasonably be seen to be in conflict with the proper discharge of his/her duties and the interests of the organization and its members.

### **NEA Financial and Operational Standards**

The NEA has developed the above to define how it tries to do its work in an ethical manner. While this document does not formally apply to your local or region, it is a great example of "best practices" in this area. The document is available at <http://www.ieanea.org/media/2009/09/NEA-Financial-and-Operational-Standards.docx>.

### **Considerations for Representative Assembly (RA) Delegates**

The bookkeeping aspects of travel expenses for your RA delegates are addressed at length under “Documentation” in the “Technical Tasks” section. From an administrative standpoint, here are three important steps you should take:

1. Develop a written policy for RA travelers, including consequences for non-compliance.
2. Give this policy to all of your delegates before you provide their funding.
3. Enforce the policy.

A sample policy is attached as Appendix 8.

Your delegates should understand that the funds they are given are an advance as opposed to a final payment. In other words, they must account for all the funds spent and return any unused portion of the advance to your organization. Your policy should specify the expenses that your governing body considers to be reimbursable and should specify how these expenses are to be documented and reported. Delegates should understand that any portion of their travel advance that is not properly documented and is not returned will be reported to the IRS by your organization as taxable income to them. See page 30 for further information on this.

If your delegates are receiving funds from more than one source (e.g. local and region), this must be handled carefully so that the delegates account for the entire amount received without counting the same expenditure twice.

If both sources provide funds directly to the delegates, some regions have their delegates submit their expense reports to the region which then makes a copy of the material and forwards it to the locals, along with a notation as to how much region funding the delegates received. The locals then verify that the total expenses per the expense reports of each delegate were at least as much as the total funding received by the delegate. If not, the local seeks reimbursement from the delegate. This procedure prevents intentional or unintentional “double dipping” and ensures that all region and local funds are accounted for. The process could be reversed, if that is the preference (have the delegate submit the expense report to the local instead of to the region).

A more efficient way to handle “dual funding” is for the local to write a check payable to the region for the delegate(s) that it is sending to the RA. The region would then provide all of the funding for the delegate. For example, if the local was to provide \$500 and the region was to provide \$1,000, the local would write a check payable to the region for \$500 and the region would write a check to the delegate for \$1,500. The delegate would then submit his/her expenses to the region. This eliminates the need for the local to follow up on expense advances and maintain copies of the documentation. Of course, this could be done the other way around as well.

A third method is for the local to pay only for certain types of expenses (e.g. food and taxis) and the region pay only for other types of expenses (e.g. airfare and hotel). This works well as long as it is followed consistently.

Delegates should understand that they cannot contribute to the NEA political action committee (FCPE) and then be reimbursed for this contribution by their local or region. FCPE contributions cannot be paid out of regular dues dollars or IPACE funds.

### **Political Action/IPACE Rebates**

Locals and regions are encouraged to promote political awareness and activity. Information about how to go about this is provided at: <http://www.ieane.org/legislative/ipace/> or contact your IEA Government Relations lobbyist.

All active IEA members contribute \$20 per year to the Illinois Political Action Committee for Education (IPACE). To assist with political activity, the IEA provides locals with the opportunity to receive a partial rebate of their members' contributions. To see how to access these funds, see Appendix 9. For a listing of "dos and don'ts" related to these funds, see Appendix 16. Accounting for political funds is discussed later in the "Regulatory Requirements" section.

Members may receive a refund of their \$20 contribution. We hope that you will discourage this practice because it takes away valuable resources from IPACE and potentially from your local, since locals cannot receive their \$4 IPACE rebate for member contributions that have been refunded. For the procedure on how to request a member refund, contact the IEA Government Relations Department. Refund checks are printed once a year.

It is a good practice to remind your members early in the year that their \$20 contribution to IPACE is not deductible for tax purposes.

### **Region Rebate**

The IEA Bylaws provide for funding to regions for operational purposes via the "region rebate". Relevant sections of the Board policy covering the disbursement and accounting for these funds is provided in Appendix 10.

Region Chairs are provided with a spreadsheet containing region rebate forms and instructions in July. Instructions should be read thoroughly to ensure that everything is completed correctly and the forms are submitted in accordance with the required timeframes. Please note that incomplete information, or forms that are filled out incorrectly, will be returned for correction before the current year rebate can be approved. A list of potential uses for region rebate funds is included as Appendix 11.

### **Insurance Coverage**

Pursuant to the requirements of the Labor Management Reporting and Disclosure Act (Landrum-Griffin Act), NEA provides fidelity (bond) insurance coverage to protect the association from theft or misappropriation of association funds. The NEA Fidelity Bond Program insures not only NEA and all state and local affiliates from loss of association funds sustained through the mishandling of these funds by association staff and officers, but also provides coverage for theft by non-employees.

The NEA Fidelity Bond Program covers all state and local affiliates of NEA automatically. There is no financial contribution to premium by state or local affiliates. (Coverage provided by the NEA Fidelity Bond Program is entirely separate from the Association Professional Liability (APL) Program which protects the staff and officers of NEA and local affiliates from financial loss when a claim or lawsuit arises out of authorized association activity.)

## **Record Retention**

It is a good idea for locals and regions to have a formal policy on how long to retain important records because:

1. It ensures that records are kept long enough to satisfy statutory requirements.
2. It also ensures that out-of-date records are destroyed when no longer needed, thereby saving storage space.
3. It eliminates the need for future leaders to keep asking the question, "How long do we have to keep this?"
4. If you are audited for some reason and it is determined that a particular record was destroyed, you will be able to show that it was destroyed in accordance with your policy and not because it was potentially embarrassing.

NOTE: this is true ONLY if you consistently follow the policy.

A sample records retention policy, based on the *NEA Local Treasurer's Manual*, is included as Appendix 12. This contains a lot of boilerplate legalese that can possibly be trimmed, if needed. Further information from NEA is available at <http://www.ieanea.org/media/2009/09/Record-Retention.docx>.

**REGULATORY REQUIREMENTS**  
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## **The Internal Revenue Service (IRS)**

The IRS exists to enforce the tax laws of the United States. These include various reporting requirements for tax exempt organizations, such as the IEA and its locals. You are very likely to have no interaction with the IRS, other than receipt of an occasional notice as discussed below. In your dealings with them, as long as they perceive that you have made an honest effort to understand and comply with their requirements, they will probably give you the benefit of the doubt if there is a problem. However, if they perceive that you have made no such effort or that you are trying to hide something, you can expect an unpleasant experience. We do not recommend this.

**Tax Exempt Organizations:** Our locals and regions (and the IEA) are categorized by the IRS as tax exempt labor unions, under the Internal Revenue Code (IRC) section 501(c)(5). What this means is that, in exchange for operating in a certain manner and complying with the applicable reporting requirements, we do not have to pay federal income tax.

There is an important difference between our locals and our regions in this regard. Our locals are recognized as individual entities that are “subordinate organizations” of the IEA. This means that they are automatically recognized as tax exempt without having to file the paperwork that other organizations must file for exemption. On the other hand, regions are a creation of the IEA bylaws and are therefore not technically separate organizations. They still have to behave as a tax exempt labor union should, but they do not have to file an annual information return (discussed below) with the IRS.

There are differences between the tax exempt status of your local/region and that of your local school district, church or museum. These organizations are exempt under different IRC sections. While they are similar in many respects, they are different in at least two ways that you should be aware of:

- These organizations do not have to pay state and local sales tax. Your local or region must pay this tax.
- Individuals can make a charitable donation to these organizations and deduct it on their income taxes. Contributions to your local or region are not tax deductible. Of course, dues paid to your organization are deductible to the extent permitted by law.

An association may be in jeopardy of losing its tax-exempt status for non-compliance or other prohibited activities. Private inurement may result when the organization’s assets or earnings are used for the benefit of an insider rather than for the good of the organization. For instance, compensation paid to employees that is disproportionately high compared with their duties could be considered private inurement. Excessive travel or entertainment expenses could also constitute private inurement. Procuring merchandise or services from vendors who are relatives or friends of insiders at higher than market rates or for other inappropriate reasons can also constitute private inurement. Transactions with insiders should be closely scrutinized because of the inherent conflict of interest that may exist. The association should set and follow very

strict standards concerning compensation and benefits, travel, entertainment and other expenses.

The terminology used to describe associations is often confusing. Associations are generally organized and operated as both not-for-profit and tax exempt. Not-for-profit status refers to incorporation status under state law; tax exempt status refers to federal income tax exemption under the Internal Revenue Code, as discussed above.

While one might reasonably conclude that as non-profit, tax exempt entities, associations may not earn profits (realize more income than expenditures) and need not pay any taxes, this is not correct. Not-for-profit associations are permitted to generate greater income than expenses; in fact, this is essential to the organization's ability to grow and serve its members and to meet unexpected future needs. However, unlike "for-profit" organizations, earnings by law must be dedicated to furthering the tax exempt purposes of the association. Not-for-profit associations have no shareholders and pay no dividends. All earnings are "reinvested" or "held" in the association to further its not-for-profit purposes.

The IRS needs a way to uniquely identify and keep track of everyone who might be a potential taxpayer. For individuals, this is done via the Social Security number. For corporations and other entities, it is done via the Taxpayer Identification Number (TIN) which may also be referred to as the Employer Identification Number (EIN) or Federal Employer Identification Number (FEIN).

It is very important that new locals immediately apply to the IRS for a TIN. The IEA will do this on their behalf. For information on how this procedure works, see your UniServ Director or call the IEA Director of Business Services. It is important that the IEA file the form because this enables us to include the necessary information to get our new locals recognized as tax exempt.

A TIN is a nine-digit number in the format XX-XXXXXXX. You need this number in order to a) open a bank account, b) file your annual information return with the IRS, and c) file any other IRS forms such as the 1099-MISC (discussed below). Consequently, it is very important that your local/region records include this number. If you are unsure of your TIN, you can contact the Director of Business Services, as the number is on file at the IEA.

In the past, some locals used their school's TIN to open a bank account instead of applying for a separate number. Others used the Social Security number of one of their leaders. Neither of these tactics is legal, so if you find that your local does not have its own TIN, you need to have the IEA apply for one for you, as described above. Before taking this step, make absolutely sure that your association does not already have a TIN, as duplicate numbers can cause problems that may take months to resolve.

**Reporting:** All locals (not regions, see above) must file an annual information return with the IRS. You will file one of three forms, depending on your local's "normal annual gross receipts". "Normal" means the average of the previous three years. "Gross receipts" means all of the cash that your local takes in excluding the IEA-NEA dues that you collect and forward to Springfield, assuming that all such dues have been paid in a timely manner. The following table shows the return that you must file each year:

<u>Annual Receipts</u>	<u>Form</u>
<i>Under \$50,000</i>	<i>990-N (E-Postcard)</i>
<i>\$50,000-\$200,000</i>	<i>990-EZ</i>
<i>Over \$200,000</i>	<i>990</i>

The vast majority of IEA locals must file Form 990-N. This form must be filed electronically after the end of each fiscal year (per the records of the IRS) and before the 15<sup>th</sup> day of the fifth month following the end of the fiscal year. For example, locals with a fiscal year ending on December 31 must file the form between January 1 and May 15. Nearly all of the locals required to file the 990-N have authorized the IEA to file it every year on their behalf. This is a good deal for both parties: the local doesn't have to worry about filing, and the IEA is assured that all locals have filed correctly.

Note that prior to 2008, locals with gross receipts less than \$25,000 did not have to file an annual information return. The 990-N requirement began for fiscal years ending December 31, 2007, and the threshold was raised to \$50,000 effective for years beginning in 2010.

Organizations that file Form 990 normally pay a CPA firm to do an annual audit, and preparation of the 990 is generally included in the fee. Organizations that must file Form 990-EZ should seek professional help, unless they have someone available who is familiar with IRS filings. The due date for both of these forms is also the 15<sup>th</sup> day of the fifth month following the end of your fiscal year.

Locals occasionally conduct activities that generate income that is unrelated to their tax exempt purpose (operating as a not-for-profit labor union). The IRS imposes an Unrelated Business Income Tax (UBIT) on income generated from these activities. If a local's unrelated business income exceeds \$1,000, it must file an annual tax return Form 990-T, "Exempt Organization Business Income Tax Return". Although the definition of Unrelated Business Income is sometimes subject to interpretation, it generally means income from activity unrelated to an association's exempt purpose. Rental income from debt-financed property and income from advertisements in newsletters are examples of Unrelated Business Income. Interest income from checking and/or savings accounts and other investments, if not a significant part of total association income, is not considered Unrelated Business Income and is not taxable. If you think that your local may have a UBIT liability, seek professional help or contact the Director of Business Services.

Forms and instructions for the 990 and 990-EZ forms are available on the IRS website at [www.irs.gov](http://www.irs.gov). Be sure that you use the form for the correct year.

Form 1099-MISC is used to report remuneration of \$600 or more paid to persons during any calendar year, for which no withholding of Social Security taxes and income tax was made. A 1099 form must be issued to each person receiving such remuneration on or before January 31 of the following year. For payments to non-members, these forms are generally used to report payments for accounting services, legal services, consultants, etc. The requirement does not pertain to expenditures for products, supplies, expense reimbursements, etc. – just to services. They also do not pertain (in most cases) to services provided by incorporated businesses – just to services provided by individuals. Form 1096 is a one-page cover sheet that accompanies your submission of the 1099's to the IRS.

General rules for reporting payments to members:

1. Reimbursement paid for valid, properly-documented business expenses (travel, postage, etc.) do NOT count toward the \$600 limit.
2. Payments for business mileage do NOT count toward the limit, as long as they are for valid business travel and the per-mile rate does not exceed the current IRS limit.
3. If a member is given a travel advance and then does not subsequently provide sufficient documentation to prove that he/she spent the funds on valid business travel, the amount of the advance should be reported to the IRS, even if it is less than \$600. The same would apply if the person did not make the trip at all, but failed to return the funds.
4. Recognition gifts and awards generally do NOT count toward the limit, but please don't try to give your officers an "award" every year in lieu of paying a stipend.
5. Stipends paid to non-officers DO count toward the limit.
6. Stipends paid to officers may count toward the limit, or they may be subject to the payroll withholding (W-2 reporting) rules. This is a gray area and is determined by the amount of the payment and the nature of the duties performed by the officer. Contact the Director of Business Services or your tax advisor for further information, if this becomes an issue.
7. Payment of a member's NEA/IEA/local dues by his/her local or region falls within the definition of a "stipend" for the purposes of #5 and #6.

Completion of 1099-MISC forms is facilitated if you have the Social Security numbers of all delegates and members who receive stipends on file. If you ask for a member's Social Security number, the IRS provides a form (W-9) for this purpose. It is essential that all private data such as Social Security numbers be kept in a secure location or password-protected file.

You can download a sample copy and instructions for the 1099-MISC and the 1096 from the IRS website, but you cannot use these forms for filing purposes. Since the forms are carbonized, you must order them from the IRS by mail, phone, the Internet, or obtain them from your local IRS office, if you have one nearby.

# SAMPLE

9595       VOID       CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no. \$ _____ \$ _____		1 Rents \$ _____ 2 Royalties \$ _____	OMB No. 1545-0115  <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div> Form 1099-MISC	<b>Miscellaneous Income</b>	
		3 Other income \$ _____	4 Federal income tax withheld \$ _____		<b>Copy A For Internal Revenue Service Center</b>  File with Form 1096.
		5 Fishing boat proceeds \$ _____	6 Medical and health care payments \$ _____		
7 Nonemployee compensation \$ _____	8 Substitute payments in lieu of dividends or interest \$ _____				
PAYER'S federal identification number _____	RECIPIENT'S identification number _____	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Group insurance proceeds \$ _____	<b>For Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.</b>	
RECIPIENT'S name _____		11 _____ 12 _____	13 Excess golden parachute payments \$ _____		
Street address (including apt. no.) _____		14 Gross proceeds paid to an attorney \$ _____	15a Section 409A deferrals \$ _____		
City, state, and ZIP code _____		15b Section 409A income \$ _____	16 State tax withheld \$ _____		
Account number (see instructions) _____	2nd TIN not <input type="checkbox"/>	17 State/Payer's state no. _____	18 State income \$ _____		

Form 1099-MISC      Cat. No. 14425J      Department of the Treasury - Internal Revenue Service  
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# SAMPLE

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<b>Form 1096</b> Department of the Treasury Internal Revenue Service	<b>Annual Summary and Transmittal of                  U.S. Information Returns</b>	OMB No. 1545-0048 <span style="font-size: 2em; font-weight: bold;">2011</span>
FILER'S name _____  Street address (including room or suite number) _____  City, state, and ZIP code _____		
Name of person to contact _____	Telephone number ( ) _____	<b>For Official Use Only</b> <div style="border: 1px solid black; width: 100px; height: 20px; margin: 5px auto;"></div>
Email address _____	Fax number ( ) _____	
1 Employer identification number _____	2 Social security number _____	3 Total number of forms _____
4 Federal income tax withheld \$ _____		5 Total amount reported with this Form 1096 \$ _____
6 Enter an "X" in only one box below to indicate the type of form being filed.		
7 If this is your final return, enter an "X" here. <span style="float: right;">▶ <input type="checkbox"/></span>		
W-2G 32 <input type="checkbox"/>	1099-BTC 30 <input type="checkbox"/>	1099-C 78 <input type="checkbox"/>
1099-E 81 <input type="checkbox"/>	1099-E 84 <input type="checkbox"/>	1099-T 83 <input type="checkbox"/>
1099-A 80 <input type="checkbox"/>	1099-B 79 <input type="checkbox"/>	1099-C 82 <input type="checkbox"/>
1099-D 75 <input type="checkbox"/>	1099-DIV 91 <input type="checkbox"/>	1099-D 85 <input type="checkbox"/>
1099-H 71 <input type="checkbox"/>	1099-INT 82 <input type="checkbox"/>	1099-K 10 <input type="checkbox"/>
1099-LTC 93 <input type="checkbox"/>	1099-MISC 95 <input type="checkbox"/>	1099-OD 96 <input type="checkbox"/>
1099-PATR 07 <input type="checkbox"/>	1099-Q 31 <input type="checkbox"/>	1099-R 88 <input type="checkbox"/>
1099-S 72 <input type="checkbox"/>	1099-SA 84 <input type="checkbox"/>	3921 25 <input type="checkbox"/>
3922 26 <input type="checkbox"/>	5498 28 <input type="checkbox"/>	5498-ESA 72 <input type="checkbox"/>
5498-SA 27 <input type="checkbox"/>		

**Return this entire page to the Internal Revenue Service. Photocopies are not acceptable.**

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ \_\_\_\_\_ Title ▶ \_\_\_\_\_ Date ▶ \_\_\_\_\_

## Instructions

**Reminder.** The only acceptable method of filing information returns with Enterprise Computing Center—Martinsburg (ECC—MTB) is electronically through the FIRE system. See Pub. 1220, Specifications for Filing Forms 1097, 1098, 1099, 3921, 3922, 5498, 8935, and W-2G Electronically.

**Purpose of form.** Use this form to transmit paper Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G to the Internal Revenue Service. Do not use Form 1096 to transmit electronically. For electronic submissions, see Pub. 1220.

**Caution.** If you are required to file 250 or more information returns of any one type, you must file electronically. If you are required to file electronically but fail to do so, and you do not have an approved waiver, you may be subject to a penalty. For more information, see part F in the 2011 General Instructions for Certain Information Returns.

**Who must file.** The name, address, and TIN of the filer on this form must be the same as those you enter in the upper left area of Forms 1097, 1098, 1099, 3921, 3922, 5498, or W-2G. A filer is any person or entity who files any of the forms shown in line 6 above.

**Preaddressed Form 1096.** If you received a preaddressed Form 1096 from the IRS with Package 1096, use it to transmit paper Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G to the Internal Revenue Service. If any of the preprinted information is incorrect, make corrections on the form.

If you are not using a preaddressed form, enter the filer's name, address (including room, suite, or other unit number), and TIN in the spaces provided on the form.

**When to file.** File Form 1096 as follows.

- With Forms 1097, 1098, 1099, 3921, 3922, or W-2G, file by February 28, 2012.
- With Form 5498, file by May 31, 2012.

## Where To File

Send all information returns filed on paper with Form 1096 to the following:

**If your principal business, office or agency, or legal residence in the case of an individual, is located in**

**Use the following three-line address**

Alabama, Arizona, Arkansas, Connecticut, Delaware, Florida, Georgia, Kentucky, Louisiana, Maine, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Texas, Vermont, Virginia, West Virginia

Department of the Treasury  
 Internal Revenue Service Center  
 Austin, TX 73301

For more information and the Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.

Cat. No. 144000

Form **1096** (2011)

If your local has a Political Action Committee (PAC) that made political expenditures during the fiscal year, it must file Form 1120-POL, “U.S. Income Tax Return for Certain Political Organizations” and pay income tax. A political expenditure is defined by the IRS as an expenditure for the “function of the influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state or local public office or office in a political organization”. Form 1120-POL must be filed and taxes paid by the 15<sup>th</sup> day of the third month after the end of your fiscal year.

***PAC’s are not required to file Form 1120-POL if their net investment income is \$100 or less.*** This is why we encourage locals to keep their PAC funds in a non-interest bearing account.

Contact the IEA Secretary-Treasurer or the Director of Business Services with questions pertaining to filing or completing these forms. Once a filing deadline is missed, or a form is filed incorrectly, it may take months to correct the problem with the IRS.

**Audits and Notices:** The IRS monitors compliance with its regulations through audits and notices.

Internal Revenue Service audits are fairly rare events, but they occasionally occur as part of the IRS’s random audit plan or as the result of a “tip” from someone (possibly a disgruntled member). Normally the main reasons for an audit by the IRS are to determine:

- Whether an organization is operating in accordance with its exempt purpose.
- Whether any income generated by an organization may be subject to the Unrelated Business Income Tax.
- Whether disbursements were made for prohibited political expenditures (see below under “Accounting for Political Funds”).
- Whether an organization is complying with federal regulations related to employee payroll (withholding tax, Social Security tax, unemployment taxes, W-4’s). In this area, the IRS also looks for employers that circumvent employment tax laws by classifying an employee as an independent contractor/consultant.
- Whether all compensation to association officers or staff has been reported to the IRS. If travel expenses are undocumented (e.g. missing backup receipts, not included in an expense voucher describing business purpose of expense) or are non-business related (e.g. spousal travel expenses), they should be treated as compensation and reported to the IRS.

During the course of the audit, any or all of the following records for the year(s) covered by the audit may be examined:

- Organizing instruments (articles or incorporation, tax exempt determination letter)
- Bylaws
- Minutes of Representative Council and Board of Directors
- All books and records of your association's assets, liabilities, receipts, and disbursements
- Payroll records
- Check register, cancelled checks and bank statements
- Copies of any federal tax or information returns filed
- Correspondence files

The need to keep adequate records to support an audit is obvious. Where the recordkeeping or accounting is deficient, or where the supporting documentation is lacking, the IRS agent will arrive at his/her own conclusions. It is very unlikely that the IRS will give your organization the benefit of doubt in close-call situations that cannot be supported by a good-faith effort to maintain the appropriate records and documentation. The consequences of a negative audit could be taxes, fines, penalties and/or payment of individual income tax (possibly retroactive) by officers or employees. At worst, the IRS could revoke the organization's status as a tax exempt organization. Because of all this, it is vitally important that you seek help in dealing with an upcoming audit.

If you are notified that an audit is scheduled, please contact the IEA Secretary-Treasurer or the Director of Business Services as soon as possible. One of them will help you determine the level of assistance that is needed in order to successfully deal with the audit. Depending on the seriousness of the issues involved, we may recommend that you engage a local expert who is experienced in dealing with the IRS.

The IRS frequently sends out official "notices" to organizations for various reasons. These include requests for information, billings for taxes, interest and penalties, and notices that tax returns are delinquent. If your organization receives one of these notices, do NOT ignore it in the hope that they will drop the matter. This will not happen. Instead, if you are not absolutely sure of how to respond to the notice, please contact the IEA Secretary-Treasurer or the Director of Business Services for advice. This will not only ensure that your issue is handled correctly, but it will also help us to identify trends in IRS activity. Please make sure that you note and meet any deadline that is included in the notice.

If you respond to a notice by mail, you should keep a copy and seriously consider sending your correspondence through some mechanism that provides proof of delivery.

## **Illinois State Board of Elections**

**Reporting Threshold:** This agency is responsible, among other things, for enforcing State law concerning the disclosure of election campaign contributions and expenditures. Its website, [www.elections.illinois.gov](http://www.elections.illinois.gov), contains information that is vital for your local if it meets the reporting threshold described below (excerpted from the ISBE publication *A Guide to Campaign Disclosure*).

The Illinois Campaign Disclosure Act applies to candidates, individuals, groups of persons or any organizations, political or otherwise, who: (1) have accepted contributions or made expenditures or independent expenditures in excess of \$3,000 within a 12-month period in support of or in opposition to a candidate or candidates for public office, or any question of public policy to be submitted to voters; (2) have received or made expenditures in excess of \$3,000 within a 12-month period for electioneering communication – defined essentially as any broadcast, cable or satellite communication or advertising that makes an appeal to vote for or against a clearly identified candidate, political party, or question of public policy made within the 60 days before a general or consolidated election or 30 days before a primary election (this does not apply to communications exclusively between a labor union or a Section 501(c)(3) or Section 501(c)(6) organization and its members); or (3) have made independent expenditures in excess of \$3,000 within a 12-month period.

Independent expenditures are defined essentially as any payment or expenditure made for electioneering communications or expressly advocating for or against a candidate, provided the spending is not made in coordination with a candidate or their committee. A contribution is cash, loans or anything of value received in connection with an election or for political purposes. Goods or services provided to the campaign or purchased on behalf of the campaign must be reported as in-kind contributions. Once the \$3,000 threshold has been reached, the Act requires that the committee file campaign disclosure documents with the State Board of Elections.

**Initial Report (D-1):** Once it has been determined that your campaign has exceeded \$3,000 in either receipts or expenditures (including electioneering communications and independent expenditures), it must file a Statement of Organization (Form D-1) with the State Board of Elections within ten (10) business days. If a committee forms within the 30 days prior to an election, the Statement of Organization must be filed within two (2) business days. Failure to file or late filing of a Statement of Organization will result in the committee being assessed a civil penalty by the Board. A Statement of Organization may be filed in person, by fax (217/782-5959), or by e-mail ([D1@elections.il.gov](mailto:D1@elections.il.gov)).

**Quarterly Report (D-2):** Once the D-1 is filed, detailed reports must be filed every quarter, regardless of the level of activity for the quarter.

The Springfield office of the Illinois State Board of Elections has indicated that the regular IPACE rebates (up to \$10 per member) do not count toward the \$3,000 reporting threshold for cash receipts. However, the Chicago office has taken a different position. Questions about this issue should be directed to your IEA lobbyist or the IEA-NEA Director of Business Services.

The State of Illinois enacted campaign reform legislation effective in 2011 which imposed contribution limitations and other requirements. If your local PAC is required to register with the Board of Elections (as described above), you are encouraged to read the "*Guide to Campaign Disclosure*" to be sure that you are meeting the new requirements. The guide is available at:

<http://www.elections.state.il.us/Downloads/CampaignDisclosure/PDF/CampDiscGuide.pdf>

The Board of Election's website includes other material such as annual reporting calendars which may be of benefit to you.

If you have general questions about the reporting requirements, your best resource is the State Board of Elections (217/782-4141). You can also contact your IEA lobbyist in the Government Relations Department or the Director of Business Services.

### **United States Department of Labor**

A few IEA locals that represent private-sector higher education employees must comply with the Department of Labor's annual reporting requirements. If you have questions about this, please contact the IEA Director of Business Services or your UniServ Director.

### **Accounting for Political Funds**

**State of Illinois (IPACE):** IPACE exists to elect individuals to the Illinois General Assembly, statewide offices, and local school boards who will make a difference for quality education. Each active IEA member automatically contributes \$20 to the Illinois Political Action Committee for Education (IPACE). Locals collect these funds and transmit them to IEA along with their members' IEA-NEA dues. The IEA separates IPACE contributions from the rest of the funds received and transmits them to IPACE. As a reminder, the \$20 IPACE contribution is not deductible by our members for federal tax purposes.

As discussed in "Administration and Fiduciary Oversight", a local can request that a portion of its members' IPACE contributions be returned to the local as a rebate. For accounting and regulatory purposes, there are three things that you should remember about these funds:

1. Local IPACE funds should never be "commingled" with the other funds of the local, as they were collected for a different purpose than the other funds. IPACE funds should immediately be deposited into a separate checking account. In order to avoid the possibility of having to file the 1120-POL form with the IRS (see page 33), most locals should make sure that their political action funds do not earn interest.
2. Local IPACE funds should be used only for local political purposes. This is discussed further under "Administration and Fiduciary Oversight" and in the Local IPACE Rebate Guide (Appendix 16).

3. Locals should always monitor their level of political spending to ensure that they comply with the State Board of Elections reporting requirements (discussed on page 35).

**Federal (FCPE):** Some locals also collect voluntary contributions to the NEA Fund for Children and Public Education (FCPE). This is normally done through payroll deduction, but locals may also collect contributions directly from their members.

The procedure for remitting payroll deductions for FCPE is discussed in Appendix 15. The Fund's website, [www.neafund.org](http://www.neafund.org), is an excellent resource for general questions. If your organization solicits funds for the FCPE, it is highly recommended that you read the NEA's guidelines on the subject, which are available in the "Financial Procedures" section of the IEA website at:

<http://www.ieanea.org/media/2009/09/NEA-Fund-Contribution-and-Transmittal.docx>

A concise summary of the common filing requirements for locals is provided in Appendix 13.

# TECHNICAL TASKS

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## **Constitution and Bylaws Requirements**

Local and region officers should be familiar with their organization's governing documents. Sometimes these documents contain requirements that affect bookkeeping procedures. For example, they might mandate that certain individuals be authorized to sign checks, that the annual budget be approved in a certain manner, or that financial reports be prepared at specified intervals.

## **Setting Up the Books**

**Basic Objectives:** Your bookkeeping system should:

1. Provide for complete and accurate recording of all financial transactions. Specifically, every cent that goes into and out of your bank account(s) should generate an accounting entry that accurately describes the dollar amount and the nature of the transaction. If you win the lottery and abruptly move to Hawaii, anyone with basic bookkeeping knowledge should be able to understand your system and take over your duties.
2. Ensure that adequate documentation (per IRS guidelines as well as good business practices) is maintained and is easily located (no shoeboxes or envelopes full of receipts).
3. Allow you to create your monthly accounting reports or regulatory reports easily and effectively.

**Bookkeeping Alternatives:** You need to decide on the type of bookkeeping system to use, the "basis of accounting" to employ, and develop a "chart of accounts".

Your choice of bookkeeping systems includes computer programs, spreadsheets, or paper-based systems. The choice will be governed by several factors. Generally, if your organization is complex and generates many financial transactions every month, you will need a more sophisticated system than you would if your organization was simple and only generated two or three transactions every month. However, your choice will also be modified by your personal preferences (if you use Quicken for your finances at home, you may want to use it for your organization) and/or by the system that you inherited from the previous treasurer (if it's already working well and you understand it, it may be easiest to continue using it).

Computer programs include such well-known products such as Quicken and Quickbooks. Generally speaking, when choosing a program, it is better to pick one of the more popular programs instead of trying to save a few dollars by selecting a lesser-known one. These programs are usually better supported by the manufacturer; also, if you need help with setting up your books or troubleshooting a problem, it will be easier to find a colleague who is familiar with Quicken than one who is familiar with a no-name product.

When choosing a computer program, you should first define your needs and then shop for a product that meets these needs but does not provide a lot of other “bells and whistles” that you really don’t require. For example, your program should definitely allow you to produce financial reports that show a budget-to-actual comparison. However, you probably do not need features such as inventory management. Buying a program with a lot of unneeded features will add to the cost and will make using the program more confusing to you.

After choosing your program, you will go through a setup process where you establish your chart of accounts (discussed below), your bank accounts, your budget, and your financial report format. When this is complete, you are ready to begin entering transactions. It’s generally best to set up your new program at the beginning of your fiscal year. If you start in the middle of the year, you will have to go back and retroactively enter all of your activity that has been processed from the beginning of the year through the current date.

Here are a couple of examples of simple financial reports that you can set up in Quicken:

**LOCAL BUDGET COMPARISON:2**  
5/1/2007 Through 8/31/2008 Using My Budget

Category Description	5/1/2007 Actual	Budget	8/31/2008 Difference
<b>INCOME</b>			
RECEIPTS	0.00	0.00	0.00
FUNDRAISERS	1,375.00	1,250.00	125.00
SEA-NEA DUES	10,140.00	10,000.00	140.00
INTEREST	622.00	600.00	22.00
LOCAL DUES	1,016.00	1,000.00	16.00
<b>TOTAL RECEIPTS</b>	<b>13,153.00</b>	<b>12,850.00</b>	<b>303.00</b>
<b>TOTAL INCOME</b>	<b>13,153.00</b>	<b>12,850.00</b>	<b>303.00</b>
<b>EXPENSES</b>			
EXPENSES	0.00	0.00	0.00
ADD TO RAINY DAY FUND	300.00	300.00	0.00
SEA-NEA DUES PAID	10,140.00	10,000.00	-140.00
MEDICATION&ARBITRATION	0.00	100.00	100.00
MEETINGS	1,054.00	950.00	-104.00
NEWSLETTER	598.00	600.00	2.00
OFFICE SUPPLIES	316.00	300.00	-16.00
<b>TOTAL EXPENSES</b>	<b>12,408.00</b>	<b>12,250.00</b>	<b>-158.00</b>
<b>TOTAL EXPENSES</b>	<b>12,408.00</b>	<b>12,250.00</b>	<b>-158.00</b>
<b>OVERALL TOTAL</b>	<b>745.00</b>	<b>600.00</b>	<b>145.00</b>

LOCAL PRIOR YEAR COMPARISON

9/1/2006 Through 8/31/2008

Category Description	9/1/2007-8/31/2008	9/1/2006-8/31/2007	Amount Difference
<b>INFLOWS</b>			
<b>RECEIPTS</b>			
FUNDRAISERS	1,375.00	1,215.00	-160.00
TEA-NEA DUES	10,140.00	9,952.00	-188.00
INTEREST	622.00	489.00	-133.00
LOCAL DUES	1,016.00	970.00	-46.00
TOTAL RECEIPTS	13,153.00	12,626.00	-527.00
<b>TOTAL INFLOWS</b>	<b>13,153.00</b>	<b>12,626.00</b>	<b>-527.00</b>
<b>OUTFLOWS</b>			
<b>EXPENSES</b>			
ADD TO RAINY DA...	300.00	0.00	300.00
TEA-NEA DUES PAID	10,140.00	9,952.00	188.00
MEETINGS	1,054.00	1,116.00	-62.00
NEWSLETTER	598.00	575.00	23.00
OFFICE SUPPLIES	316.00	299.00	17.00
TOTAL EXPENSES	12,408.00	11,942.00	466.00
<b>TOTAL OUTFLOWS</b>	<b>12,408.00</b>	<b>11,942.00</b>	<b>466.00</b>
<b>OVERALL TOTAL</b>	<b>745.00</b>	<b>684.00</b>	<b>-61.00</b>

Please remember to back-up your computerized financial data frequently. Your backup copy should ideally be stored in a secure, remote location (e.g. in a locked drawer at school or at a friend's house).

Some treasurers prefer to use Excel or another spreadsheet program to track their financial data. This is usually because this program is widely available and many people are already familiar with it. While programs such as Quicken are appropriate for all sizes of organizations, Excel is usually better suited for small- to medium-sized locals and regions, with fairly simple financial reports.

When using Excel, most treasurers set up their income and expense accounts as columns in the spreadsheet, with a year-to-date total at the bottom. The totals are then "linked" to the financial report, which is set up in a separate section of the spreadsheet. So, for a very simple organization the data columns might look like this:

		<u>INCOME</u>			<u>EXPENSE</u>		
	DESCRIPTION/ CHECK NUMBER	LOCAL DUES	IES-NEA DUES RECEIVED	IES-NEA DUES PAID	MEETINGS	NEWSLETTER	BANK BALANCE
9/1/2007	BEGINNING BALANCE						714.12
9/5/2007		50.00	1,000.00				1,764.12
9/6/2007	116			1,000.00			764.12
10/1/2007	117					60.00	704.12
10/5/2007		50.00	1,000.00				1,754.12
10/6/2007				1,000.00			754.12
10/31/2007	118				116.00		638.12
11/5/2007		50.00	1,000.00				1,688.12
11/6/2007				1,000.00			688.12
	<b>YEAR-TO-DATE</b>	<b>150.00</b>	<b>3,000.00</b>	<b>3,000.00</b>	<b>116.00</b>	<b>60.00</b>	
	<b>ANNUAL BUDGET</b>	<b>500.00</b>	<b>10,000.00</b>	<b>10,000.00</b>	<b>250.00</b>	<b>200.00</b>	

. . . And the year-to-date financial report might look like this:

<b>LOCAL FINANCIAL REPORT</b>		
<b>FOR THE PERIOD SEPTEMBER 1, 2007 THROUGH NOVEMBER 30, 2007</b>		
	<u>YEAR-TO- DATE ACTUAL</u>	<u>ANNUAL BUDGET</u>
<b>BEGINNING BANK BALANCE</b>	714.12	714.12
<b>INCOME</b>		
LOCAL DUES	150.00	500.00
IEA-NEA DUES	3,000.00	10,000.00
TOTAL INCOME	3,150.00	10,500.00
<b>EXPENSES</b>		
IEA-NEA DUES	3,000.00	10,000.00
MEETINGS	116.00	250.00
NEWSLETTERS	60.00	200.00
TOTAL EXPENSES	3,176.00	10,450.00
NET GAIN (LOSS)	(26.00)	50.00
<b>ENDING BANK BALANCE</b>	<b><u>\$688.12</u></b>	<b><u>\$764.12</u></b>

. . . with the spreadsheet cells formatted like this:

	<b>YEAR-TO- DATE ACTUAL</b>	<b>ANNUAL BUDGET</b>
<b>BEGINNING BANK BALANCE</b>	714.12	714.12
<b>INCOME</b>		
LOCAL DUES	=E30	=E32
IEA-NEA DUES	=F30	=F32
TOTAL INCOME	=SUM(N40:N41)	=SUM(O40:O41)
<b>EXPENSES</b>		
IEA-NEA DUES	=G30	=G32
MEETINGS	=H30	=H32
NEWSLETTERS	=I30	=I32
TOTAL EXPENSES	=SUM(N46:N48)	=SUM(O46:O48)
NET GAIN (LOSS)	=N43-N50	=O43-O50
<b>ENDING BANK BALANCE</b>	<b><u>=N37+N52</u></b>	<b><u>=O37+O52</u></b>

Compared to specialized accounting software, Excel has the advantages of general familiarity and relative ease of use. However, for more complicated organizations with a lot of income/expense accounts and transactions to record, it can be cumbersome to operate in terms of recording transactions and maintaining the financial reports. Specialized software also provides other time-saving features such as bank reconciliation and inquiry capability.

Paper-based systems are appropriate for small locals with relatively few financial transactions. A paper-based system can be as simple as using a checkbook with a "Description" column that can be used to record the income or expense account for each transaction. Or a paper-based system can be devised which essentially mirrors the spreadsheet format shown above. Whatever paper-based system you use, if you find yourself having trouble balancing your bank account, or find that you are spending a large amount of time producing your monthly financial statements, it is probably time to look into upgrading to Excel or a specialized accounting package.

Additional information on this topic (provided by NEA) is available at:  
<http://www.ieanea.org/media/2009/09/Accounting-Systems.docx>.

"Basis of Accounting" is not an issue for most of our organizations. Generally, books are kept on either the "cash basis" or the "accrual basis" of accounting. With the cash basis, revenue is recorded when cash is received, and expenses are recorded when a check is written. With the accrual basis, revenue is recognized as soon as the timing

and dollar amount are certain, regardless of when the cash is actually received. Expenses are deemed to have been incurred as soon as an obligation to pay has been established, regardless of when the check is actually written.

Use of the accrual method is generally thought to produce financial statements that are more accurate and meaningful. However, proper use of this methodology requires a certain degree of bookkeeping training and expertise. Improper use of the accrual method can produce statements that are misleading. The cash basis, while theoretically less preferable, is generally adequate for all but the largest local associations.

Your chart of accounts is merely the list of line items for your financial reports. Each item of income and expense that you will show in your budget and financial reports represents an “account” for bookkeeping purposes. So “Local Dues” will be an income account, and “Mediation and Arbitration” will be an expense account. Each bank account will also represent an account. Some organizations, primarily those using the accrual basis of accounting, will use other categories of accounts (assets and liabilities) as well, but these are beyond the scope of this manual.

In your financial reports, you tell the “story” of your organization’s fiscal activities. The formats of the reports are the “language” of this story. The chart of accounts represents the “vocabulary” of this language. We will get into this concept more fully in the section on “Financial Reports,” but for now you should just be aware that your chart of accounts should include a separate account for each type of transaction that you want to show separately in your reports and in your budget. If you have to file an IRS report such as the 990-EZ, your chart of accounts must include sufficient detail to comply with the reporting instructions for the form. For example, the 990-EZ requires you to report “salaries” and “professional fees” on separate lines of the form, so you would need to set up separate accounts for these items instead of having a single account called “salaries and professional fees”.

Additional information on this topic (provided by NEA) is available at:  
<http://www.ieanea.org/media/2009/09/Accounting-Terminology-and-Concepts.docx>.

## **Bank Accounts**

**How many accounts do we need?** Your organization normally needs at least one checking account, for general operations. If you receive funds from IPACE, you will need a separate, non-interest bearing account for this purpose also, since your political action funds must be separated from your general funds.

Beyond this, you may want additional accounts for two reasons. If you accumulate funds in excess of what you need for day-to-day existence, you may want to invest them in a money market account, a certificate of deposit, or other type of account that pays interest in excess of what you may be earning on your checking account. This is a good business practice; you should just make sure that you leave enough in your checking account to handle your budgeted expenses.

The other reason to open a separate account would be if your organization formally decides to set aside funds for a specific purpose. Some examples are a scholarship fund, a strike/crisis fund, or a rainy day fund. If this occurs, in most cases you don't actually have to open a separate bank account – you can keep track of the special funds separately using your chart of accounts. But if you aren't comfortable doing this, or if your governing body would rather see the special funds put into a separate bank account, that will be the way you will want to proceed.

**Choosing a Financial Institution:** There are four important factors to consider. These are financial, service, location, and auditability.

The financial criterion includes fees and interest. Your account may or may not be charged a monthly or per-transaction fee, and it may or may not earn interest. You need to look at both of these together, i.e. project the annual fees and interest for each alternative and see which one gets you the smallest net expense or the largest net gain. An account with high fees may be preferable to one with no fees, if it pays interest that will more than offset the fees.

The service criterion refers to an assessment of whether a particular financial institution will be able to provide the service that you expect. In this context, “service” includes both “services” (e.g. home banking, bank-by-mail, etc.) and “customer service” (the ability to provide face-to-face personalized service, if you have issues to be addressed). The latter can be gauged only through an actual visit to the institution.

Location is an important factor, if you will be visiting the institution frequently. If a bank allows you to make deposits by mail, its location is less important.

Auditability refers to the bank's ability to provide sufficient information for your Audit Committee to do its job. Specifically, your financial institution should provide you with a monthly statement showing the details of all activity in your account. It should also provide copies of all checks, deposit slips and debit/credit entries for the month. Some institutions do not provide these copies, and even if they are available on-line, this is a serious detriment to the Audit Committee being able to review the records efficiently and objectively. We strongly urge you to select an institution that provides copies of checks, deposit slips and debit/credit entries along with the monthly statement.

After you have made your choice, you are ready to open the account. The institution will ask you for some basic information, including your local or region's Taxpayer Identification Number (TIN). This number is discussed further under “Regulatory Requirements,” but for now just be aware that you will need this number in order to open a bank account. Do not succumb to the temptation to expedite things by using your employer's TIN or someone's Social Security number. This is not legal and will result in problems and confusion down the road.

The institution may also ask you for proof that you are a tax exempt organization, especially if this qualifies you for favorable terms on your account. They will normally tell you what sort of proof they require, but if you can't supply this, you can get a letter from the IEA which verifies your tax exempt status. Contact the Director of Business Services for this letter.

**Signature Card:** The institution will require everyone who is authorized to sign checks to sign a signature card. Since we strongly recommend that all of your checks require two signatures, you should consider having several of your leaders sign the card. That way it will be easier to get the second signature, especially in cases where time is of the essence and/or your leaders are not located in the same building. Your governing body should review the signature arrangements on an annual basis, to ensure that they are up-to-date.

**Checks:** When ordering checks, you should consider price and functionality. Generally speaking, you can get a better price by using an outside company (available by mail or the Internet) to print your checks, but this is not always the case, so you should get a quote from an outside firm and compare it to the bank's prices. In terms of functionality, here are a few considerations:

- Carbon copies. Many people prefer checks with carbon copies. This gives them a record of each check so they don't have to record checks in the checkbook immediately. This convenience should be weighed against the additional cost of these checks.
- Check stubs. Some people like to record the details of a check on a check stub which is also used to maintain a running balance on the account. Use of check stubs depends on your accounting system and on personal preference. Again, there is a cost involved. Obviously, you do not need carbon copies and check stubs.
- Signature space. Since we recommend that all of your checks require two signatures, your checks should reflect this by having two signature lines and a notation: "TWO SIGNATURES REQUIRED".
- Accounting system. If you use a computerized accounting system and plan to print your checks instead of writing them by hand, this will impact your check selection process. Consult your owner's manual for details.

**Bank Reconciliation:** A bank reconciliation for all accounts is an important step that should be promptly completed every month, in order to ensure that neither the bank nor the treasurer have made mistakes in recording transactions. The reconciliation should be maintained along with the rest of your accounting records, and part of the Audit Committee's work should be to ensure that a reconciliation was done every month. A detailed procedure for bank reconciliations is provided in Appendix 14. Please remember that many computerized accounting programs have features which greatly facilitate the preparation of the monthly reconciliation.

## **Petty Cash**

On occasion, the treasurer will receive requests for small expenditures (“small” should be defined by local policy, but \$5 and under is a popular threshold). It may not be practical to write a check for each small expense; therefore, they may be paid from a petty cash fund. A petty cash fund maintains a minimal cash balance (generally \$20-\$50) and is kept to facilitate small payments. To establish a petty cash fund:

- An expense voucher (discussed later in this section) is written for the amount of the initial petty cash fund (e.g. \$25), payable to an association officer who will cash the check and return the cash to the treasurer.
- When the petty cash check is cashed, the funds are kept in a secure location (safe, locked drawer, etc.). Ideally, the fund should be accessible to only one person, for accountability purposes.
- As expenses are received, a petty cash voucher is completed with the receipt attached. The cash is disbursed, and the receiver signs the petty cash voucher. Petty cash vouchers are kept with the petty cash.
- When the petty cash fund runs low, the cash should be replenished for the amount used. To do this, another check should be written and cashed in the same manner as the original set-up of the fund. The amount of the replenishment check should equal the total of the petty cash vouchers used, and the petty cash vouchers should be filed along with the expense voucher as supporting documentation.

**NOTE: At any time, the petty cash on hand plus the petty cash vouchers must total the amount of the petty cash fund (e.g. cash \$15 + vouchers \$10 = \$25).**

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### **“SAMPLE” PETTY CASH VOUCHER**

Voucher # \_\_\_\_\_ Date \_\_\_\_\_  
Paid To \_\_\_\_\_ Amount \_\_\_\_\_  
Purpose \_\_\_\_\_  
Account # \_\_\_\_\_ Received by: \_\_\_\_\_  
(Signature)

Attach receipt!

## **Credit/Debit Cards**

All other avenues and alternatives should be explored before the decision is made to obtain a local association or region credit card. Use of a credit card negates some of the internal controls that are discussed in “Administration and Fiduciary Oversight”, (e.g. the “two signature” recommendation). Unfortunately, we have seen cases where a person has used a local or region credit card inappropriately and has not been able to pay the funds back. If there is no alternative to obtaining a credit card, we recommend that the credit limit be set as low as possible so that losses due to improper usage are minimized. If the card’s purpose can be served by obtaining it from a single vendor, such as Lowe’s, this is preferable to obtaining a general-purpose card such as MasterCard or Visa.

We have yet to encounter circumstances that justify the need for a debit/ATM card for a local or region. We strongly urge that these not be used. The potential for misuse outweighs any convenience that they may provide

## **Payroll**

A few large locals employ people, on a full-time or part-time basis, to work on their behalf. If a local has one or more employees, it must withhold taxes and file a significant number of reports on a quarterly and annual basis. Generally speaking, if a local must act as an employer, it should either have professional help in meeting its filing requirements or should have a treasurer who is trained in such matters.

Because of the complexity of this topic and the small numbers of our locals that it affects, we are not going into further detail in this manual. However, we do suggest that if your employee also works for your school district, you should explore the possibility of having your employer pay the employee on your behalf and then have your local reimburse the employer. This eliminates the necessity of your local filing all the required paperwork, since this would be done by the employer who has expertise in these matters and is already set up to file the reports.

## **Financial Reports**

Preparation and distribution of a written monthly financial report is an important part of the treasurer’s duties. These reports inform your governing body of the financial status of your organization and if you distribute them to your general membership, provide your members with assurance that their money is being handled appropriately. An oral statement giving the cash balance in each account is not an adequate financial report.

In your financial reports, you tell the “story” of your organization’s fiscal activities. This story has the following elements:

- How much money do we have?
- How much money have we received?
- How much money have we spent?
- How does our financial activity compare to our budget?
- How does this year’s financial activity compare to last year’s?

The format of your financial report(s) is the “language” with which you tell your story. For most organizations, something similar to the following format would be acceptable. Please remember that your financial report and your budget should be set up in the same format.

**MIDTOWN EDUCATION ASSOCIATION  
STATEMENT OF RECEIPTS AND EXPENDITURES  
EIGHT MONTHS ENDED APRIL 30, 2005**

	<b>ACTUAL 2004</b>	<b>ACTUAL 2005</b>	<b>BUDGET 2005</b>	<b>REMAINING BUDGET</b>
<b>BEGINNING CASH BALANCE SEPTEMBER 1</b>	<b>4,870</b>	<b>5,000</b>	<b>5,000</b>	<b>0</b>
<b>RECEIPTS:</b>				
IEA-NEA Dues	16,500	17,000	28,000	11,000
Local Dues	1,280	1,300	2,000	700
Fundraisers	600	800	1,000	200
Interest	370	400	500	100
<b>Total Receipts</b>	<b>18,750</b>	<b>19,500</b>	<b>31,500</b>	<b>12,000</b>
<b>PAYMENTS:</b>				
IEA-NEA Dues	16,500	17,000	28,000	11,000
Mediation/Fact-Finding/Arbitration	0	0	300	300
Meeting Expenses	600	500	800	300
Newsletter	240	400	500	100
Office Supplies	335	400	600	200
<b>Total Expenses</b>	<b>17,675</b>	<b>18,300</b>	<b>30,200</b>	<b>11,900</b>
<b>NET INCREASE (DECREASE) TO CASH</b>	<b>1,075</b>	<b>1,200</b>	<b>1,300</b>	<b>(100)</b>
<b>ENDING CASH BALANCE APRIL 30</b>	<b>5,945</b>	<b>6,200</b>	<b>6,300</b>	<b>(100)</b>

Some other features that you may want to incorporate into your monthly financial report might include:

- Show the current month’s activity in addition to the year-to-date information as shown above.
- Provide an explanation of the reasons that various line items are significantly over or under budget (see “Variance Analysis” under “Administration and Fiduciary Oversight”).
- Provide other relevant statistics such as how your current membership levels compare to the expectations that were used to prepare the budget.

Finally, remember that the use of a computerized accounting system will make it easier to set up your reports but may limit your flexibility in setting up a format.

## **Membership**

**Relationship with Membership Chair:** We strongly recommend that different individuals fill the positions of treasurer and membership chair. Besides providing better internal control (discussed earlier), this provides the benefit of spreading out the workload.

The treasurer and membership chair need to work closely together, as they have joint responsibility of making sure that the appropriate amount of dues is being withheld from members and that the appropriate amount of IEA-NEA dues are remitted per the IEA-NEA dues transmittal policy (below). The membership chair will receive the monthly IEA-NEA dues statement, and he/she must check the statement for accuracy and forward it to the treasurer on a timely basis in order to avoid late payment penalties. The treasurer may receive information that the membership chair needs (e.g. deduction registers from the employer) and must make sure that this gets to the membership chair as soon as possible.

**IEA Membership Processing Guide:** The IEA's Membership Processing Department issues an annual *Membership Processing Guide* prior to the start of the membership year. This manual is designed to provide the local association members with detailed information on:

- State and local membership dues
- Completing membership enrollment forms
- Updating members' records
- Transmitting dues
- Processing and transmitting agency fees

Since this manual provides comprehensive and detailed instructions for membership and agency fee processing, it is recommended that the treasurer and membership chair thoroughly familiarize themselves with its details. This will ensure the timely and accurate processing of membership and agency fee enrollments and transmittals. When the manual arrives, study its contents thoroughly. Please note that the manual is also available on the IEA's website at [www.ieanea.org/resources/financial-procedures](http://www.ieanea.org/resources/financial-procedures). If you have any questions, please contact the IEA's Membership Processing Department.

**IEA-NEA Dues Transmittal Policy:** This policy sets forth the expectations for locals' payment of IEA-NEA dues, as follows:

November 1	10% of obligation
December 1	20% of obligation
January 1	30% of obligation
February 1	40% of obligation
March 1	50% of obligation
April 1	60% of obligation
May 1	70% of obligation
June 1	80% of obligation
July 1	90% of obligation
August 1	100% of obligation

Since the obligation for almost all locals fluctuates from month-to-month, due to new members, departing members, etc., the amount payable for dues will fluctuate as well. The policy provides for a 30-day grace period for paying each month's obligation.

To avoid late payment penalties, it is important to pay the balance shown on each month's statement before the grace period expires. Some locals are reluctant to do this when there are membership "drops" or "adds" in process, as they feel the balance isn't "right". You should look at each month's payment (except for the final one) as an "installment payment". As the dues obligation for your local changes throughout the year, you will "catch up" with the changes with the next "installment". A simple example would be:

*November 1 Statement: The statement shows five members with a \$500 IEA-NEA dues obligation each or \$2,500 total. The installment payable for November 1 is 10% or \$250. You know that one of the five members retired at the beginning of the year, but your membership chair has not sent this information to the IEA. To avoid late payment penalties, you should pay the full \$250 installment.*

*December 1 Statement: The "drop" is processed and is now reflected on your bill. The obligation on your December 1 statement is \$2,000 (four members at \$500 each). The December 1 installment is 20% of the obligation (\$400) minus all payments made previously (\$250) or \$150. You are now "caught up".*

As treasurer, trying to keep up with membership drops and adds in transit will just increase your workload and may end up causing your local to incur penalties. It is the membership chair's job to ensure that your local's roster is accurate. It is the treasurer's job to pay the full amount of the monthly statement on time. If you skip payments or pay a flat dollar amount (e.g. \$10,000) instead of what is shown on the monthly statement, this will cause scrutiny from the IEA, as both of these practices are signs of potential financial problems within the local.

**Policy on Seating Local Delegates at the IEA RA:** The IEA's bylaws contain the following requirement, with respect to seating local delegates to the IEA Representative Assembly:

*Delegates – No later than one month prior to the annual meeting of the Representative Assembly, local education associations shall transmit to the Association the full dues owed for prior membership years, the NEA and association dues, and any imposed penalties for the current membership year in accordance with [the above schedule]. Delegates of those local education associations failing to meet this deadline shall not be seated unless the deficiency is caused by a local Board of Education.*

If your local is sending one or more delegates to the IEA RA, they will not be seated unless your local is up-to-date in its dues payments for the current and prior membership years. This is not something that you want to have to explain!

**How to Read the Monthly Statement:** The IEA uses the NEA's computer system to handle membership processing. While the system has many good features (one of which is that it is provided free of charge), it also has a few cumbersome ones. One of these is the monthly IEA-NEA dues statement, which many people feel is not easy to read. If you are one of these, see Appendix 15 for detailed instructions.

**Payment Alternatives:** There are two payment alternatives for your IEA-NEA dues. 1) You can have the employer send them directly to the IEA; or 2) you can have them sent to your local and then write a check to the IEA. Note that the details of the arrangement have to be worked out with the employer, who may have system or policy restrictions which may prevent them from complying with the first alternative.

There are pros and cons to both alternatives. If the employer pays the IEA directly, it saves you the trouble and expense of writing a check, as well as the time needed to separate the IEA-NEA dues portion from the local dues portion. However, having the employer pay the IEA directly does not relieve you from responsibility for following the IEA-NEA Dues Transmittal Policy, so you have to monitor their payments to make sure that they pay enough each month to cover the balance per your statement. This is a decision that you will have to make, based on your local's circumstances.

### **Dues Income Verification**

You need to have a method in place to verify that your employer collects the right amount of dues from your members and that those dues are all remitted to you in an appropriate timeframe. The latter is straightforward; you just need to find out your employer's schedule for withholding dues from your members and transmitting them to you. For example, the employer may start withholding dues on October 1 and send them to you twice a month through May. So you should expect 16 payments, roughly every two weeks, and should have a calendar, checklist or some other simple way to monitor this and make sure that you get your checks when they are due.

Verifying the accuracy of the withholding is more of a challenge. The key to this task is making sure that, along with each dues check from your employer, you receive a list of members from whom dues were deducted and the amount that was deducted for each. When the first listing is received, you and your membership contact should make sure that the employer is withholding dues from all of your members and that the amount withheld is correct. You can accomplish the latter by dividing the total dues for the school year for each class of members (e.g. full-time certified, half-time ESP) by the number of pay periods for which dues will be withheld. This is the amount that should be withheld every pay period. Note that members who are contributing to the FCPE will have a larger amount withheld than those who are not. After the first payment, you should be able to spot-check the subsequent payments to make sure they are correct.

You should retain each dues listing for audit purposes and should give a copy to your membership contact. He/She will use the listing to verify that the IEA's membership roster is in synch with the records of your local and your employer.

The above applies regardless of whether your employer withholds and transmits your members' IEA-NEA dues separately from your local dues or whether all the dues are withheld as a lump sum. Either way, you need to verify that the process is working correctly.

### **Documentation**

“Documentation” refers to the process used to ensure that there is something on file for each financial transaction to a) facilitate preparation of the financial reports; and, b) prove that the transaction was properly approved and was related to your organization's business (i.e. was appropriate for a tax exempt education-related labor union).

**Cash Receipts:** Documentation for cash receipts is fairly straightforward. For checks received from your employer or other businesses, there is normally a remittance advice with the dollar amount and purpose of the check indicated on it. For checks with no remittance advice, you might keep a photocopy of the check with a notation of the nature of the receipt (dues, return of expense advance, etc.). The date that you deposit the check should be noted on the documentation. If currency is received, there should be a short memo prepared that lists the individual(s) who provided the currency, the dollar amount that each provided, and the purpose of the receipt.

When possible, you should collect funds in the form of a check instead of currency.

**Cash Disbursements:** The most important thing to remember for cash disbursements is that you are spending your members' money, and you must retain adequate proof that it was used for an appropriate business purpose. This should be documented as follows:

- Payments to vendors for goods and services: An original vendor invoice.
- Stipends and scholarships: A notation in the minutes of your governing body, including the name and dollar amount paid to each recipient.
- Dues refunds: A voucher (see below) which includes the reason for the refund and a computation of the dollar amount.
- Petty cash checks: Expense voucher, with petty cash vouchers attached.
- Travel expense advances and reimbursements: Discussed in the next section.

In the past, your organization may have allowed individuals to short-circuit the documentation requirements. For example, people may have been allowed to turn in a handwritten note that said "\$54.22 spent for paper to print newsletter". Everyone that is allowed to purchase goods or services for your organization must understand that this is not acceptable. Ideally, your organization should have a short written policy that spells out your documentation requirements.

In addition, the following items must be documented for all disbursements:

- Name of payee
- Dollar amount
- Check number
- Approval signature(s)
- Complete description of the business purpose of expenditure
- If meals are involved, the names of each person attending should be noted in the documentation.

In addition, in most cases it will help facilitate the preparation of your financial reports and make them more accurate, if the documentation includes the line item in your chart of accounts that the item will be charged to.

Most organizations employ some sort of "voucher system" to accumulate this information. This involves the use of a standardized form (similar to the one on the following page) with blank lines for each of the above items.

## “Sample” Expense Voucher

\_\_\_\_\_ Association

Date	Check No.	Amount
------	-----------	--------

Explanation:

---

---

Approved for Payment

President	Signature
-----------	-----------

Treasurer

**(Attach to Receipt/Invoice)**

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## “Sample” Expense Distribution

Acct. No.	Expense Classification	_____
410	Office Maintenance	_____
420	Administration Salaries, Expenses & Taxes	_____
430	Negotiations	_____
435	Mediation, Arbitration & Fact-Finding	_____
440	Professional Rights & Responsibilities	_____
450	Legislative	_____
460	Public Relations – Membership	_____
470	Instructional/Prof. Development	_____
490	Miscellaneous	_____

**Travel Expense Advances/Reimbursements:** Documentation for travel expense advances and reimbursements must be handled carefully for several reasons. For many organizations, travel expense (RA delegates in particular) is their single largest item of expenditure. You want to make sure that your travelers are reimbursed adequately; otherwise, they may not want to travel on your behalf in the future. On the other hand, payments to individuals require a great deal of scrutiny to ensure that excess reimbursement is not provided. Finally, both the organization and the traveler may run afoul of the IRS unless travel expenses are computed and documented correctly.

A form similar to the one on page 58 is useful to capture all of the required information. By going to the IEA website at <http://www.ieanea.org/media/expenseMileage.xls>, you can download and customize this form to meet your needs. The form is used as follows:

- Date: The date each expenditure was made.
- Event: A description of the business purpose of the travel (IEA RA, ESP Conference, Board of Directors meeting, etc.).
- Traveling Points: The towns traveled to and from (e.g. Springfield→Lombard).
- Program: For local/region use.
- Business miles: If someone uses their personal auto for travel on official business, they can be reimbursed for their mileage, with three caveats 1) they cannot be reimbursed for “commuting” mileage (e.g. if they drive to their school, work their normal work day, then have a meeting after school and drive home, they cannot be reimbursed for mileage), 2) if they are reimbursed at a rate higher than the official IRS rate, the excess is considered as taxable income by the IRS, and must be reported as such; and 3) mileage to IEA and NEA Representative Assemblies should be reimbursed at a rate not to exceed the cost of "coach" airfare to the same destination.

If someone uses their personal car for business travel, mileage is the preferred method of payment. Do not reimburse them for gas expense, etc. either in lieu of or in addition to mileage.

- Business amount: For local/region use.
- Tolls: Reasonable toll charges may be reimbursed without additional documentation.
- Parking: Receipts should be required when parking in a parking facility. Reasonable fees for parking meters may be reimbursed without additional documentation.
- Public transportation: This would be taxis, trains, airfare, etc. Receipts should always be required for these expenses.
- Meals (breakfast, lunch, dinner): Your organization should have a dollar limit for requiring receipts (normally around \$10). If a traveler pays for a meal for someone other than him/herself, the name(s) of the other individual(s) should be listed. Meal expenses for relatives, etc., who are not on official business, should not be reimbursed.

- **Tips:** Tips on meals should be reimbursed as part of the meal and documented accordingly. Your organization should have a policy on what other sorts of tips will be reimburseable. A normal level of tipping, in accordance with this policy, is reimburseable without a receipt.
- **Hotel:** The room cost should be reported on this line; meals, parking, etc. that are included on the hotel bill should be reported in the appropriate column.
- **Telephone:** Business-related calls from hotel rooms should be reported on this line, as should business-related calls from someone's personal telephone. Reimbursement should be made only for individually-billed calls that have a business purpose, and a copy of the billing is required. Reimbursement of all or a pro-rated portion of someone's monthly phone bill may generate taxable income. This practice should not be followed without consulting a tax adviser.
- **Miscellaneous:** Your organization should have a policy on what sort of additional business-related expenditures are reimburseable.

Your travelers should be given a copy of your travel policy before they leave home, along with a copy of the expense report form. As they incur expenses, they should note them on the form and attach the receipt. When they return, they should sign the form, complete the name/address information, make sure all the receipts are attached, and send it to whoever is responsible for approval.

If many receipts are involved, the traveler should be instructed to make sure that it is easy for the treasurer (and the Audit Committee) to cross-reference them with the expense report. In other words, receipts should not just be thrown into an envelope and stapled to the report. Notations should be made on the receipts as to the date incurred and the column that they are reported under.

If a travel advance is provided, the traveler should be instructed that he/she needs to bring back receipts and documentation for expenses that equal or exceed the amount of the advance. If they do not, the undocumented portion of the advance must be returned by the traveler. In other words, if you give someone \$500 to go to a meeting and they only bring back documentation for \$400, they are expected to return the remaining \$100 to your organization as soon as they return. Failure to do this is a very questionable business practice and can get both the organization and the traveler in trouble with the IRS, as they consider this as taxable income that must be reported.

Travel advances should be noted on the expense report so that the traveler can be reimbursed accordingly.

See "Considerations for RA Delegates" in the "Administration and Fiduciary Oversight" section, and Appendix 8, for more information on this topic.



## **Filing**

“Filing” simply means the system that you set up to make sure that your documentation is retained for the length of time specified in your record retention policy (discussed under “Administration and Fiduciary Oversight”) and is easily accessible when needed. Items to be included in your filing system include cash receipts and disbursements, travel documentation, bank reconciliations, financial reports, and bank statement materials.

Most locals and regions file their documentation in chronological order. Some keep all of the documentation for a given month together in a monthly file folder, in a three-ring binder, or in some other system. For example, they would file the cash receipts and disbursements documentation, travel documentation, bank reconciliations, financial reports, and bank statement materials for Month 1 in a binder, then file the same types of documents (in the same order) for Month 2 immediately following those for Month 1. Other organizations have separate chronological files for each type of document. Others mix these two methods (e.g. they might have their financial reports in a separate chronological file from the rest of the documentation). With larger organizations it is usually better to have separate files for each type of documentation, as this makes it easier to find a particular transaction.

If you have more than one bank account, we recommend that you have a separate set of files for each account. We also recommend that you keep the records for each fiscal year in separate files.

## **Transitioning the Treasurer**

At the beginning of the new membership year, it is the outgoing treasurer’s responsibility to transition this vital role to the incoming treasurer. Although this handbook discusses roles and responsibilities, the outgoing treasurer’s expertise regarding local membership and financial information is invaluable.

**Outgoing Treasurer:** Pass along all membership and financial records and data such as:

- Duties & responsibilities
- Constitution & bylaws
- Policy & procedure manuals
- Committee information
- How-to manual (if available)
- Contact lists (phone numbers, emails, etc.)
- UniServ information
- Due dates
- Annual events
- Meeting requirements
- Mail
- Electronic & paper files

- Passwords
- Budget
- Bank statements
- Bank account signature & access changes
- Checkbook & register
- Cash receipts & disbursement records
- Treasurer reports and financial statements
- Tax and other regulatory filings
- Change of address for statements:
  - Bank
  - School District
  - IRS
- A “walk about” to introduce the new officer to contacts

**Incoming Treasurer:** Ask lots of questions, such as the following:

- What has worked well?
- What has been a challenge?
- Who to “go to”?
- Who are the “blockers”?
- What do I do when . . .? (i.e. IRS letters)
- What tools have been most useful?
- What training/workshops should I consider?
- What meetings will give me the best information?
- What seems to work for managing my calendar and time?
- When you became an officer, what was the greatest challenge you faced and why?
- What is the most helpful thing someone did for you to help you be a better officer?

# APPENDICES

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## Appendix 1: "Sample" Audit Checklist

### 1. Review Board Minutes

- A. Copies of treasurer reports included.
- B. Treasurer report approved.
- C. Annual approval of banking arrangements and check signers.
- D. Prompt action on approved signers when changes occur.
- E. Listing and approval of all scholarships, committee/officer stipends, waived dues, etc.
- F. Minutes of all meetings accounted for?

### 2. Financial Records

- A. Compare bank statements to financial records. Account for all transactions on both, and investigate any discrepancies. This applies to all accounts, certificates of deposit, etc.
- B. Compare financial records to treasurer reports in minutes.
- C. Do the financial reports include a budget/actual comparison?
- D. Bank statements should be mailed directly to someone besides the treasurer.
- E. Ensure that the bank account(s) are reconciled monthly – and agree with bank statement and financial records.

### 3. Receipts

- A. Obtain a list of checks (date and amount) paid to the local/region by the employer (local) or IEA (region). If the local has a PAC fund, request from the Director of Business Services a list of IPACE rebate payments made to the local.
- B. Make sure all were deposited intact.
- C. Make sure all were deposited timely.
- D. Review documentation for miscellaneous receipts.

### 4. Disbursements

- A. Two signatures on checks.
- B. No checks payable to "cash".
- C. No cash withdrawals.
- D. Original receipts available for all payments, except scholarships, stipends, awards, etc. which should be approved in the minutes. Handwritten notes are not acceptable documentation.
- E. 1099 requirements met.
- F. If refunds of dues are made to members, test a sample for correct computation.
- G. Get list of dues checks received by IEA and compare to financial records.
- H. No use of member dues for federal or state political action (e.g. NEA Fund for Children and Public Education).
- I. Account for all check numbers.

**5. Miscellaneous**

- A. Review investment of funds and business purpose of all accounts. Are all accounts needed? Are excessive fees being paid? Is interest income, where applicable, being maximized?
- B. Annual budget – approved by board.
- C. Annual audit – report to board.

**6. Political Action – Additional Considerations**

- A. Expenses politically-related: see Government Relations rules.
- B. No federal expenses (e.g. NEA Fund for Children and Public Education).
- C. No investment income.
- D. Separate bank accounts.
- E. Comply with state disclosure requirements.

**7. Review Findings of Prior Year Audit(s), if any**

## Appendix 2: Budget Considerations – Mechanics

**NOTE:** *If you have a political action committee and receive funds from your IPACE rebate, these funds need to be in a separate bank account, and to avoid confusion you should have a separate budget for these funds.*

The budgeting process can be approached in different, equally valid ways. The following discussion addresses some alternatives and gives an example of how to approach the budget mechanically. A great deal of work will probably be needed before you get to this point in terms of discussion of local needs, member preferences, etc.

One question that should be addressed early on is whether to decide on the dues per member before starting the process and then structure the budget to “live within your means”, or else to start by budgeting your expenses and then structure the dues so that they will be high enough to pay for those expenses. Each approach has pros and cons.

Another question is whether you want the budget to “break even” (i.e. income will equal expenses) or whether you want the budget to show a “profit” or a “deficit”. A “profit” would be appropriate if you want to take in extra money in order to build up a reserve fund for the future. A “deficit” would be appropriate if you have built up excess funds in the past and want to spend some of them in the upcoming year.

If you choose to budget a “profit”, you can show this in two different, equally valid ways. You can structure the budget so that the total income is higher than the total expenditures, or you can add a line under “Expenditures” called something like “Addition to Reserve Funds” and show on this line the amount of “profit” you intend to make. If you take this approach, the total income and the total expenditures will equal each other, just as they would if you were preparing a break even budget. The first approach is probably better from an accounting point of view. The latter is sometimes better from a psychological point of view.

If you choose to budget a “deficit”, you can also show this in two different, equally valid ways. You can structure the budget so that the total income is less than the total expenditures, or you can add a line under “Income” called something like “Expenditure of Prior Reserve Funds”, and show on this line the amount of the “deficit” you intend to incur. If you take this approach, the total income and the total expenditures will equal each other, just as they would if you were preparing a break even budget. The first approach is probably better from an accounting point of view. The latter is sometimes better from a psychological point of view.

An accounting decision needs to be made in terms of how you want to show the IEA-NEA dues that you collect from members and then transmit to IEA. If you want to show these as income and expenditures, use the “Option 1” worksheet. Obviously, the income and expenditure should always be the same number. If you choose to leave them out of the budget altogether, use the “Option 2” worksheet. Either is acceptable, but this decision should be made in consultation with your treasurer because the books will have to be set up to reflect this decision.

**Appendix #2**

A very important consideration in your budget is to make sure that you qualify for financial assistance from the IEA in case you incur large bills for mediation, fact-finding or arbitration. There are two criteria for qualifying: 1) your local dues must be at least \$15, and 2) your budget must have a line item for mediation, fact-finding and arbitration in an amount equal to at least \$3 times the number of members in your local. See discussion on pages 14-15.

Now it's time to get to the numbers. Based on input from members, prior years' history, and discussion by your budget committee, develop a preliminary expense budget. Make sure this includes the line item described in the preceding paragraph. You will probably not use all the lines from the sample worksheet, and you may end up adding different ones. The sample is just an illustration. Again, make sure this is done in consultation with your treasurer as he/she will have to set up the books to mirror your budget.

Using the same process, estimate how much "non-dues" income you anticipate in the upcoming year. This could include interest income, fundraisers, etc.

At this point, you should perform the following calculation:

$$\begin{array}{r} \text{Total estimated expenditures} \\ \text{LESS ..... Total estimated non-dues income} \\ \text{PLUS ..... Budgeted "profit", or} \\ \text{LESS ..... Budgeted "deficit"} \\ \text{EQUALS ..... Dues income needed} \end{array}$$

Now you need to implement the decision about whether to make the dues fit your needs or make your needs fit the dues. If the former, you need to arrive at a dues figure that, when multiplied by your estimated number of members, will equal or exceed the "dues income needed" figure above. If the latter, you need to multiply your predetermined dues figure by the estimated number of members to arrive at total dues income, then adjust the estimated expenditures so that the above calculation produces the total dues income. Either way, you will have to make some small adjustments due to rounding. Make sure that your local dues are at least \$15, if you want to qualify for IEA financial assistance, as discussed above.

We suggest that you share the budget with your membership somehow. Also, your monthly financial reports should include a comparison of your actual financial activity with your budget.

**“SAMPLE” BUDGET WORKSHEET B – OPTION 1**

September 1, 20 \_\_\_\_\_ to August 31, 20 \_\_\_\_\_

<u>Code No.</u>	<b>INCOME</b>	<u>Budgeted</u>
310A	Local Dues: _____ Members @ \$ _____	_____
310B	IEA-NEA Dues: _____ Members @ \$ _____	_____
320	Other Income	_____
	<b>TOTAL INCOME</b>	_____

<b>EXPENDITURES</b> (By major accounts)		
400	IEA-NEA Dues (Same as line 310B)	_____
410	Office Maintenance	_____
420	Administration Salaries, Expenses & Taxes	_____
430	Negotiations	_____
435	Mediation, Arbitration & Fact-Finding	_____
440	Contract Enforcement	_____
450	Legislative	_____
460	Public Relations – Membership	_____
470	Instructional/Professional Development	_____
480	Conventions—Workshops	_____
490	Social Activities	_____
500	Gifts	_____
510	Contributions	_____
520	Scholarships	_____
530	Contingency Fund	_____
	<b>TOTAL EXPENDITURES</b>	_____

**“SAMPLE” BUDGET WORKSHEET B – OPTION 2**

September 1, 20 \_\_\_\_\_ to August 31, 20 \_\_\_\_\_

<u>Code No.</u>	<b>INCOME</b>	<u>Budgeted</u>
310A	Local Dues: _____ Members @ \$ _____	_____
320	Other Income	_____
	<b>TOTAL INCOME</b>	_____
	<b>EXPENDITURES</b> (By major accounts)	
410	Office Maintenance	_____
420	Administration Salaries, Expenses & Taxes	_____
430	Negotiations	_____
435	Mediation, Arbitration & Fact-Finding	_____
440	Contract Enforcement	_____
450	Legislative	_____
460	Public Relations – Membership	_____
470	Instructional/Professional Development	_____
480	Conventions—Workshops	_____
490	Social Activities	_____
500	Gifts	_____
510	Contributions	_____
520	Scholarships	_____
530	Contingency Fund	_____
	<b>TOTAL EXPENDITURES</b>	_____

## Appendix 3: "Sample" Budget Worksheet A

\_\_\_\_\_, 20\_\_\_\_ to \_\_\_\_\_, 20\_\_\_\_  
 Month Day Year Month Day Year

### INCOME

	Actual/Projected (Current Year)	Budgeted (Next Year)
<b>Dues and Fees</b>		
Local dues: ____ members @ \$____	_____	_____
Agency Fee	_____	_____
<b>Other Income</b>		
Strengthening local reimbursements	_____	_____
Interest on Savings Account	_____	_____
Assessments	_____	_____
Donations – Financial Assistance	_____	_____
Fundraisers	_____	_____
Miscellaneous	_____	_____
<b>TOTAL</b>	_____	_____

### EXPENDITURES

	Actual/Projected (Current Year)	Budgeted (Next Year)
<b>Office Maintenance</b>		
Rent / Mortgage	_____	_____
Real Estate Taxes	_____	_____
Telephone	_____	_____
Utilities	_____	_____
Copy Machine Supplies	_____	_____
Supplies (Other)	_____	_____
Postage	_____	_____
Equipment Rental	_____	_____
Equipment Purchase	_____	_____

**Appendix #3**

	<b>Actual/Anticipated (Current Year)</b>	<b>Anticipated (Next Year)</b>
<b>Office Maintenance, continued</b>		
Insurance	_____	_____
Subscription – Fees	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Administration – Salaries, Expenses &amp; Taxes</b>		
Officers’ Salaries	_____	_____
Committee Chairpersons’ Salaries	_____	_____
Employee Salaries	_____	_____
Outside Secretarial Services	_____	_____
State Unemployment Tax	_____	_____
Federal Unemployment Tax	_____	_____
Social Security Contributions	_____	_____
Health Care Premiums	_____	_____
Retirement Contributions	_____	_____
Release Time Expenses	_____	_____
Officer Reimbursable Expenses	_____	_____
Legal Expenses	_____	_____
Audit Fee	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Governance Meeting Expenses</b>		
Executive Committee	_____	_____
Representative Council	_____	_____
General Membership	_____	_____
State Education Association Convention	_____	_____
NEA Convention	_____	_____
Other Conferences	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____

	<b>Actual/Anticipated (Current Year)</b>	<b>Anticipated (Next Year)</b>
<b>Negotiations</b>	_____	_____
Committee Meetings	_____	_____
Negotiations Sessions	_____	_____
Training	_____	_____
Mediation, Arbitration & Fact-Finding	_____	_____
Travel/Meals	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Grievance Processing/ Contract Enforcement</b>		
Committee Meetings	_____	_____
Arbitration Expenses	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
<b>TOTAL</b>	_____	_____
<b>Instructional/Professional Development</b>		
Committee Meetings	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Materials	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Legislative</b>		
Committee Meetings	_____	_____
Campaign Expenses	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____

**Appendix #3**

	<b>Actual/Anticipated (Current Year)</b>	<b>Anticipated (Next Year)</b>
<b>Public Relations</b>		
Committee Meetings	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Ads/Publications	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Membership Promotion and Maintenance</b>		
Committee Meetings	_____	_____
New Member Orientation	_____	_____
Gifts	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Publications	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
<b>Internal Communications</b>		
Committee Meetings	_____	_____
Newsletter Costs	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____

	<b>Actual/Anticipated (Current Year)</b>	<b>Anticipated (Next Year)</b>
<b>Social</b>		
Committee Meetings	_____	_____
Event Costs	_____	_____
Retirement Gifts	_____	_____
Recognition Gifts, Flowers, Cards	_____	_____
Training	_____	_____
Travel/Meals	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
 <b>Contributions</b>		
Contributions	_____	_____
Other	_____	_____
<b>TOTAL</b>	_____	_____
 <b>Scholarships</b>	_____	_____
<b>TOTAL</b>	_____	_____
 <b>Contingency Fund</b>	_____	_____
<b>TOTAL</b>	_____	_____
 <b>TOTAL EXPENDITURES</b>	_____	_____

## Appendix 4: "Sample" Budget Worksheet B

September 1, 20 \_\_\_\_\_ to August 31, 20 \_\_\_\_\_

### INCOME

<u>Code No.*</u>		<u>Budgeted</u>
310A	Local Dues: _____ Members @ \$ _____	_____
310B	Agency Fee: _____ Payers @ \$ _____	_____
320	Other Income	_____
<b>TOTAL INCOME</b>		_____

### EXPENDITURES (By major accounts)

410	Office Maintenance	_____
420	Administration Salaries, Expenses & Taxes	_____
430	Negotiations	_____
435	Mediation, Arbitration & Fact-Finding	_____
440	Contract Enforcement	_____
450	Legislative	_____
460	Public Relations – Membership	_____
470	Instructional/Professional Development	_____
480	Conventions—Workshops	_____
490	Social Activities	_____
500	Gifts	_____
510	Contributions	_____
520	Scholarships	_____
530	Contingency Fund	_____
<b>TOTAL EXPENDITURES</b>		_____

\* Examples of Account Numbering

## **Appendix 5: Region Budget Guidelines** (EFFECTIVE WITH THE 2005-2006 BUDGET)

These are the guidelines in effect as this handbook went to press. To make sure that you have the most up-to-date information, check the IEA website under the “Resources” / “Financial Procedures” / “Handbooks, Workbooks and Materials”/ “2011 *Financial Procedures for Locals and Regions*” sections. The current guidelines are also included in the budget spreadsheet that is provided to region chairs annually.

### **100 Regional Operations/Governance**

IEA provides hotel and meals for Region Chairs who attend the Board meetings. Mileage is reimbursed per IRS rate.

Section 110+ is generally used for the Region Council officers’ expenses:

- 111 may be used for additional expenses of the Region Chair, such as mileage and meal(s) reimbursement for attendance at Zone meetings and any other meetings that require his/her attendance.
- 112 may be used for reimbursement for expenses related to the position of Chair of the Region, such as long distance telephone calls, Internet service, etc.
- 113 may be used for expenses incurred by the Vice Chair attending meetings with the Chair. If your Vice Chair attends the Board meetings with you, it will be advantageous to put some money in that line item.
- 114 and 115 are specifically for expenses of the Region’s secretary and treasurer.
- 116 is for incidentals, if you have other officers.

Section 120+ is for Region Council expenses:

- 121 may be used for food provided at meetings.
- 122 is for mileage and transportation.
- 123 provides for the expenses of the standing committees that your council has, such as the Executive Committee.
- 124 is for expenses not detailed in any other line item. Use of this line item should be minimal.

Section 130 is to be used for Region Chair, Vice Chair, and Ethnic Minority election expenses.

Section 140 is for expenses not detailed in any other line item. Use of this line item should be minimal.

### **200 Continuing Programs**

Section 210 may be used to provide assistance to locals that are on strike or are in any other state of crisis. Use of line item 213 should be minimal.

Section 220 is to be used for telephone expenses for the region. If your Region Council sends out a newsletter, paper and postage may be charged to this section. Website expenses and electronic communication costs belong here also. Use of line item 224 should be minimal.

Section 230 is for awards and media. Awards are sometimes duplicated in the 500 section under Association promotion. However, 232-Media could be used for ads in newspapers or magazines. Use of line item 233 should be minimal.

Sections 240-280 should be self-explanatory.

Section 290 – Use of this line item should be minimal.

### **300 Regional Training Programs**

Sections 310-340 are often used by regions and UniServ Directors when they provide specialized training programs at the region level, such as Bargaining and Grievance Procedures. Incentives for attendance, prizes, and food for the meetings can be allocated through this section. A brief explanation should be provided for lines 310-340. Use of line item 350 should be minimal.

### **400 Conventions/Conferences Expenses**

Section 410 is to be used for IEA-NEA Representative Assembly expenses. Use of line item 415 should be minimal.

Section 420 is to be used for NEA Representative Assembly expenses. Use of line item 424 should be minimal.

Sections 430-440 include all other conferences that IEA provides for members. Many regions give locals incentives to send more than one member to these conferences. Use of line item 450 should be minimal.

### **500 Association Promotion Expenses**

Sections 510-520 may be used for membership manias in the Fall and recognition dinners in the Spring. Use of line item 530 should be minimal.

### **600 Contingency**

It is wise to put some funds into Contingency for emergencies. Normally, this should not exceed 5% of the funds available.

## Appendix 6: Important Internal Controls

### Cash Receipts

- Incoming checks should be received by someone without other accounting duties (e.g. writing checks). This person should list the checks in a log that can be compared to the actual amounts deposited, as an audit procedure.
- The person opening the mail should immediately stamp checks “For Deposit Only”.
- Pre-numbered receipts should be given for contributions, gifts, etc.
- Receipts should be entered in the accounting records daily.
- **Checks and cash should be deposited daily, with the date of the deposit indicated in the applicable records. The bank deposit slip totals should match the total in the books. Cash should NOT be withdrawn when making a deposit.**

### Cash Disbursements

- **All disbursements, except petty cash items, should be made by checks. Complete supporting documentation should be maintained. This is to insure that there will be a permanent record of how much and to whom the funds were paid, as well as the business purpose of the expenditures.**
- **Checks should always be payable to a specific person/company. This makes it more difficult to fraudulently disburse funds. Checks should never be made payable to “Cash”.**
- **Checks should be paid from original vendor invoices.**
- Written policies should be in place that spell out the documentation that will be required for any expenditure to be reimbursed. Individuals who are given expense advances for occasions, such as the Representative Assemblies, should be provided with these guidelines when they receive their funding.
- Annually, the Board should authorize bank accounts and signers of checks.
- **Two signatures are recommended on all checks. Two signatures reduce the possibility of an unauthorized disbursement. The governing board should authorize all check signers. The bank should be instructed not to accept checks without two signatures.**
- **Signing of blank checks should never be permitted.**
- Pre-printed check numbers should be used. Checks should be pre-numbered and used in sequence, to control the checks used and to identify missing checks.
- If an error is made in writing a check and/or a check is returned due to duplicate payment, write “VOID” across the face of the check and stub to indicate that the check and stub are not to be used.
- **Keep the supply of checks in a secure place. There should be adequate controls over supplies of blank checks. This simple control is to insure that checks are protected against loss by fire or theft.**

- **A person other than the treasurer should receive bank statements directly from the bank. This person should review the monthly activity shown on the statement and then pass it along to the treasurer. This simple control prevents a multitude of potential sins.**
- **A monthly bank reconciliation is required. In order to prove the accuracy of both the association records and those of the bank, it is necessary to reconcile and account for any differences between the two balances.**
- **All vendor's invoices and expense vouchers should be checked for quantities received, services performed, prices charged and clerical accuracy. Without a review of invoices, errors may be overlooked and payments could be paid in the wrong amount.**
- **All banks or other institutions where funds are deposited should be instructed not to accept withdrawals payable to cash. Any electronic fund transfer or automatic debit account arrangements should be established with the authority of at least two officers of the association and should be reauthorized annually by the Board.**
- **Debit Cards/ATM Cards: We recommend that these NOT be used by regions and locals.**
- **Credit Cards: All other avenues and alternatives should be explored before the decision is made to obtain a local association or region credit card. Use of a credit card negates some of the internal controls that are discussed above (e.g. the "two signature" recommendation). Unfortunately, we have seen cases where a person has used a local or region credit card inappropriately and has not been able to pay the funds back. If there is no alternative to obtaining a credit card, we recommend that the credit limit be set as low as possible so that losses due to improper usage are minimized. If the purpose of the card can be served by obtaining it from a single vendor, such as Lowe's, this is preferable to obtaining a general-purpose card such as MasterCard or Visa.**

## Appendix 7: Warning Signs of Possible Fraud

***NOTE: The presence of one or more of these "warning signs" does NOT automatically indicate that fraud is taking place. What they indicate is that the opportunity for fraud is present. See discussion on pages 19-22.***

### **RED Flags**

- One person does all of the work related to financial and membership matters. Worst case is someone who serves as president, membership chair and treasurer.
- No oversight over the person with the checkbook (controls such as dual signatures are missing, there is no monthly financial reporting, etc.).
- Deficiencies in documentation for disbursements:
  - No documentation
  - Use of copies instead of originals
  - Multiple erasures/whiteouts on any kind of financial records (checks, deposit slips, invoices, etc.)
- Commingling of funds (general fund and PAC, etc.)
- People with access to financial resources exhibit a "wheeler-dealer" personality, with little regard for financial responsibility. Sample comment, "Well, if I can't pay my credit card bills, I'll just declare bankruptcy."
- People who display an acceptance of dishonest behavior, as long as the consequences are avoided. Sample comment, "I made \$5,000 from my Avon business last year, and I didn't declare it as income because there's no way that I'll get caught."
- Checks written to "Cash"
- Cash withdrawals from the local's bank account
- Cash deducted from bank deposits

### **ORANGE Flags**

- The local is consistently behind in paying its IEA-NEA dues
- No annual review of the books/records by an outside body
- Signing of blank checks
- No budget or no comparison of actual results to the budget
- Checks written payable to the check signer without a second signature
- Bank statements are not reviewed by someone other than the treasurer
- People in positions of authority appear to be living beyond their means
- No written, enforced guidelines on:
  - Conflict of interest
  - Ethics
  - Documentation requirements/retention
  - Reimbursement of expenses
  - Check signing

## Appendix #7

- Training for treasurer on his/her duties
- Training for officers on financial matters such as controls and oversight over the bookkeeping function
- Annual Board approval of banking arrangements and approved signatures
- Strict controls over credit card use (or hopefully no use at all)

### YELLOW Flags

- Delays in depositing checks/cash received
- Treasurers, membership chairs and other officers do not attend IEA training sessions when they are offered in nearby locations, and/or are not aware of other IEA resources available to help them with their job duties.
- Large petty cash funds with many transactions
- A local credit card is used for transactions that could be handled by check or reimbursement to an officer. In today's world, most people have credit cards that provide rebates or airline miles for purchases. Therefore, it is not a financial burden to ask an officer to charge an expense to his/her credit card and then be promptly reimbursed by the local. This eliminates all of the control issues that come into play with the use of a local association credit card.
- Use of an ATM or debit card for a local or region. Unless there is a specific business purpose for such cards, they are usually just an invitation for misuse.

## **Appendix 8: Sample Policy for Representative Assembly (RA) Delegates**

### **Delegate Reimbursement**

The (name of local or region) may provide funds to advance and/or reimburse RA delegates for expenses incurred in attending the IEA and/or NEA RA. The amount of such delegate funding shall be annually established. To receive reimbursement from delegate funds for expenses incurred or to claim expenses incurred against any advance from such funds, a delegate must properly substantiate expenses, noting the amount, time, place, business purpose and description of expenses, including receipts required per the Travel/Expense Report form which has been provided, and submit such substantiation no later than 60 days after expenses are incurred. Any expenses not properly substantiated shall not be reimbursed or credited.

If the delegate has already received an advance to cover such expenses, the delegate must return within 60 days the amount of such advance not used to pay for properly substantiated expenses. If the delegate does not do so: 1) such unreturned amounts shall be included on an IRS Form 1099 issued to the delegate; 2) court proceedings may be initiated to collect the excess amounts; and 3) the delegate may be denied future delegate funding. Delegates will provide the (local or region) treasurer with their Social Security numbers prior to accepting a travel advance payment.

### **Delegate Accountability**

It is the responsibility of members elected to serve as delegates to the IEA and/or NEA RA to attend all business sessions of the RA, delegation caucuses and briefings, and other required RA business-related meeting(s), as the delegate may be reasonably informed of prior to the required meeting(s). Failure to meet any of these responsibilities, unless excused by the region chair or designee for an IEA RA or NEA RA local delegate, or by the IEA president or designee for an NEA RA state delegate, shall result in the delegate's advance and/or reimbursement for expenses being proportionally reduced. If the delegate has already received an unreduced advance and/or reimbursement, he/she must return any excess amounts. If the delegate does not do so: 1) such unreturned amounts shall be included on an IRS Form 1099 issued to the delegate; 2) court proceedings may be initiated to collect the excess amounts; and, 3) the delegate may be denied future delegate funding.

### **Reimbursable Expenses**

To be eligible for reimbursement, expenses should meet two criteria. They should be related to the individual's function as a delegate, and they should be reasonable in nature and cost. The cost of a taxi ride from the airport to the hotel would meet both of these criteria. The cost of a taxi ride from the hotel to a Broadway show would fail the "related" test, unless specific circumstances made it necessary for the person to attend the show in his/her role as delegate. A stretch limo ride from the airport to the hotel for a single traveler would normally fail the "reasonable" test.

## Appendix #8

Some examples of expenses that are generally reimbursable, if properly documented, include:

- Hotel room charges
- Regular airfare (not business or first-class)
- Taxi to/from the hotel, airport and dining locations
- Meals for the delegate (must meet the “reasonable” test)
- Meals for other delegates or individuals for which there is a business purpose for providing the meal. Any time a delegate claims reimbursement for a meal for anyone other than him/herself, the travel expense form must include that person’s name, title (e.g. “delegate,” “IEA president,” etc.) and the business purpose for the meal must be noted.
- Tips for meals and taxi (limited to 15%)
- Reasonable tips for luggage handling
- Parking
- Tolls
- Mileage\*
- Rental car and gasoline
- The (region chair or other person in charge of the delegation) may be reimbursed for reasonable costs of providing food and beverages to the delegation.

Some examples of expenses that are not generally reimbursable include:

- Expenses incurred for family members or others for whom there is no business purpose
- Personal items such as massages
- Merchandise, except if purchased for a legitimate business purpose
- Contributions to the NEA Fund for Children and Public Education (FCPE)
- Non-meal food and beverage, except if purchased by the region chair or other person in charge of the delegation

\* If mileage to/from an event totals more than the cost of "coach" airfare, reimbursement will be limited to the cost of airfare.

## Appendix 9: FAQ's – Local IPACE Rebates

### **How much rebate money is available to a local?**

Locals may request three different levels:

1. Level I Standard Rebate – \$4 per IPACE contributing member and is available each year. This rebate must be requested during the current IPACE year which runs from July 1 to June 30. Rebates cannot be provided for prior years (e.g. on June 30, 2005 you can only request a rebate for the 2004-2005 year, and on July 1, 2005 you can only request a rebate for the 2005-2006 year).
2. Level II Special Rebate – an additional \$6 per contributing member (\$10 total), if you have special circumstances that will require more funding. The reason for such a request should be fully documented in your written rebate request.
3. Level III Priority Project – under unusual circumstances a rebate of larger than \$10 per member may be available. This rebate requires a local to submit a budget and requires the approval of the IPACE Executive Committee. Contact Government Relations for further details.

### **How do locals request their rebate money?**

Rebate requests must be made in writing or by e-mail. Written requests can be sent to the Government Relations Department at IEA Headquarters in Springfield. E-mail requests can be sent to [Jim.Reed@ieanea.org](mailto:Jim.Reed@ieanea.org) or to your lobbyist.

### **What else do I need to know about local rebates?**

It is important that all political action funds be fully accounted for and spent for the proper purposes. They should be kept in a separate, non interest-bearing checking account and complete records should be kept as to how they are spent.

## Appendix 10: Region Rebate (EXCERPT FROM BOARD POLICY)

### 15.2 IEA-NEA Regional Fiscal Year

The Regional Council budget year is to be from the 1st day of September through the 31st day of August.

### 15.3 Accounting and Financial Procedures

- A. "Region funds" consist of 1) the region rebate which is authorized in the Bylaws and is based on regional membership, and 2) Regional Council Chairperson's in-region funding, which is a flat dollar amount authorized as part of the annual budget process.
- B. "Audit/Budget forms" will consist of documents authorized by the IEA Secretary-Treasurer that will provide regions with a format for reporting 1) current resources on hand as of the end of the region council budget year, 2) detailed estimates of how the region's resources will be utilized during the upcoming budget year, 3) a comparison of how the previous year's funds were spent, compared to the budget for that year, and 4) a checklist which is used to verify that the Regional Council Chairperson and treasurer are familiar with basic accounting guidelines (see Section 15.5). Regions will maintain adequate account records to support the requirements of (3) above.
- C. Each July, the Business Services Department will obtain a preliminary membership count for each region. From this number, they will compute an estimate of the upcoming year's region rebate. This will be provided to the regions, along with the dollar amount of region funds that is available for carryover from the current region council budget year and the applicable forms for region audit/budget reporting.
- D. After the end of the region council budget year, region funds that are carried over from the prior year may be requested at any time, in increments of \$4,000 or less.
- E. Region audit/budget forms must be completed by the regions, checked for mathematical accuracy and conformance to policy by the Business Services Department, and approved by the Executive Committee. Forms shall be returned to the regions for correction by the Business Services Department in case of mathematical errors or nonconformance to the instructions that accompany the forms (lack of proper signature, etc.). Forms should be submitted in time to be processed and corrected (if necessary) by October 1 of each year. The Executive Committee shall return forms to regions in cases where insufficient detail is provided or if in its judgment the forms do not comply with the intent of the region funding policies as stated in 15.3B. If a Region has funds in escrow, the budget plan that is submitted shall include a plan that will show how the escrow amount will be used.

- F. After the current year's audit/budget forms are approved by the Executive Committee, regions may request up to 50% of the region rebates prior to February 1. The remainder can be requested at any time thereafter, on an as-needed basis. In-region funding may be requested at any time after the approval of the audit/budget forms. All requests for current year region funding shall be in increments of \$4,000 or less. Regions should allow ten calendar days for processing region funding requests, although emergency requests may be handled in five calendar days or less.
- G. In January, the final membership for each region will be determined and a revised region rebate amount will be provided to each Regional Council Chairperson.
- H. Regions, if so desired, should maintain their funds in an FDIC/NCUSIF – insured interest-bearing account in order to provide additional funds for region use.

### **15.5 Regional Audit and Financial Compliance**

Regional funds will be accounted for in accordance with the most recent version of the IEA's "*Financial Procedures for Locals and Regions*" handbook. Regional Council Chairpersons, treasurers and other officers should all be familiar with the requirements of this handbook. Specific attention should be spent on areas related to documentation requirements and IRS compliance.

Every time a Region elects a new Region Chair or Treasurer who has not previously held this position, both the Region Chair and the Treasurer will be given training on financial procedures by either the IEA Secretary-Treasurer, or the IEA Director of Business Services, or a qualified trainer whom they have selected.

As part of the annual budget process, Regional Council Chairpersons and treasurers will verify via a short checklist that they have access to the "Financial Procedures" handbook and that certain basic financial procedures are being followed.

Regional funds may be audited by the Director of Business Services, with or without notice in case of 1) request by the Regional Council Chairperson, 2) request by the IEA President or Secretary-Treasurer, or 3) inclusion in a random compliance audit program that is approved by the IEA Executive Committee. In case of an audit, the Regional Council Chairperson and treasurer will promptly make available all requested financial records as well as any other records which may reasonably be required for the audit.

The following items will be included in each audit:

1. Review of bank statements.
2. Review of invoices and expenses.
3. Review of minutes, budgets, financial reports, and any other relevant records.
4. Recommendations for improvement of accounting system, if needed, including recommendations for compliance with the IEA's "*Financial Procedures for Locals and Regions*" handbook.
5. If a region has recently been audited by a CPA firm, this audit may be accepted in lieu of items 1, 2, 3, and 4 noted above.

**15.6 Use of Regional Funds**

Regional funds shall be used to develop programs and services for members, consistent with IEA-NEA and NEA policy, subject to the limitations below:

- A. Regional funds may not be used in support of the candidacy of any individual for any local, state or regional office.

## Appendix 11: Ideas for Use of Region Rebate Money

The Strategic Financial Planning Committee outlined a series of recommendations throughout its work this year. One recommendation was to provide region chairs with information about ways to use region money. The Secretary-Treasurer reviewed region budgets and contacted chairs for further information. Below is a list of ways regions are currently using rebate money in addition to the typical expenditures as listed on the region budget/audit sheets.

- **Trainings**
  - Certification Rules
  - Collective Bargaining
  - Grievance Process
  - School Finance
  - Parliamentary Procedure
  - Sparks
  - I Can Do It
  - Retirement Rules
  - IMRF
  - Social Security
  - Financial Planning
  - Diversity
  - School Finance
- **Meetings with Targeted Members**
  - ESP Roundtable
  - Presidents' Roundtable
  - Minority concerns
  - New member focus groups
  - ARs
  - Soon-to-be retirees
- **Membership Mania**
  - One day trainings on financial procedures, elections, membership rules, etc.
- **Conferences**
  - Midwest Leadership
  - NEA conferences
  - Summer Leadership Academy
  - Minority Leadership Training
  - Women's Leadership Training
- **Teaching and Learning**
  - Focus groups for targeted members to hear needs
  - Trainings on best practices in particular subject areas
  - Reaching out to parents seminar
- **Community Outreach**
  - Membership in Chamber of Commerce, Farm Bureau, Urban League, NAACP, etc.

## Appendix #11

- **Incentives (Examples from Regions)**

- At Council meetings we have asked one or two locals each month to bring someone from their local who they would like to honor for their teaching or for their Association work or both.
- We provide funding to locals to attend trainings like the Winter Advocacy Conference (WAC), Summer Leadership Academy (SLA), etc. (approximately \$125 per local) up to a certain total amount each year.
- We have a Regional Dinner each Spring and pay for council members to attend.

- **Communication**

- Newsletter
- Local radio spots
- Ads in local newspaper

- **Awards/Scholarships**

- Friend of Education Award (given to a community volunteer for support of education)
- Teaching scholarships – for students entering college in the education field
- ESP recognition for ESP Day
- Donuts for schools with good AR attendance, etc.

- **Socials**

- New teacher breakfast
- Member social
- Retiree appreciation dinner/social
- Spring Revelry – a social with a DJ and food
- Region hog roast with a DJ (attendance has drawn 200-300 people)
- Other – We have, in the past, had a special service meat order where we have worked with a local butcher shop to provide different types of meat to members. We haven't done this in a few years, but it was once quite popular with our members. We ran as much as \$10,000-\$15,000 worth of meat through this program each time.

## Appendix 12: Sample Records Retention Policy (From the *NEA Local Treasurer's Manual*)

The Document Retention Policy sets forth the rules that are to be followed by officers, employees, and other representatives of the Association with regard to the retention and disposal of documents that are produced or received by the Association in the course of its operations. The existence of the Policy serves several important purposes. The premature or random destruction of certain documents may result in the loss of information that is necessary for the effective maintenance and operation of the Association, or may run afoul of legal requirements. At the same time, the retention of documents that no longer serve an operational or legal purpose can cause logistical and other problems. The Policy has been adopted in order to deal with these and other related concerns.

As used in this Policy, the following terms have the meanings indicated:

- A. The term “documents” means materials kept in any medium by which information can be recorded or presented;
- B. The term “hard-copy documents” means paper or other hard-copy documents;
- C. The term “electronic documents” means documents other than hard-copy documents, including computer files of any kind, such as e-mail, website, and internet communications;
- D. The term “non-essential documents” means documents that are not essential on a continuing and long-range basis to the maintenance or operations of the Association, do not have historical value for the Association, and are not subject to a legal retention requirement;
- E. The term “institutional documents” means documents that are necessary on a continuing and long-range basis for the maintenance or operation of the Association, and documents that have historical value for the Association;
- F. The term “legal documents” means contracts, leases, and other documents that create legal rights and obligations, documents that at a particular point in time are subject to a legal retention requirement because they deal with an event or topic that is relevant to litigation or a government investigation, and documents that are subject to a statutory or regulatory retention requirement.

Unless otherwise indicated, documents shall be retained for the following periods:

- Non-Essential Documents shall not be retained for more than three (3) years after their production or receipt. This three (3) year limitation shall apply to both hard-copy Non-Essential Documents (including individual “chronological files”) and electronic Non-Essential Documents.
- Institutional documents (both hard-copy and electronic) shall be retained permanently. Examples are: membership lists, certain financial records, records of certain governance meetings, Constitution and Bylaws.

**Appendix #12**

The following retention periods shall apply to the documents indicated:

- a. Leases, contracts, retainer, agreements,..... Six (6) years after termination of and other documents that create legal the transaction in question rights and obligations
- b. Documents relating to the election of..... One (1) year officers
- c. Financial documents
  - LM-2 reports and supporting records ..... Seven (7) years
  - Membership enrollment and renewal forms ..... Seven (7) years
  - To calculate and collect agency fees ..... Seven (7) years
  - To support Political Action Committee ..... Four (4) years
  - Lobbying Disclosure Act reports and ..... Six (6) years supporting records
  - Tax filings and returns ..... Permanently
  - Records supporting general tax filings ..... Seven (7) years and returns
  - Employment tax filings..... Four (4) years (after tax due date)
  - Property records ..... Permanently
- d. Job recruitment and hiring documents
  - Job announcements and internal job postings ..... One (1) year
  - Hiring criteria used to select among candidates .... One (1) year (for unsuccessful applicants) ..... Three (3) years after termination (for successful applicants)
  - Tests and other similar selection criteria ..... Two (2) years (longer if adverse impact identified)
  - Employment applications, resumés, reference..... One (1) year (for unsuccessful applicants) letters and other documents received from job applicants ..... Three (3) years after termination (for successful applicants)
  - Background investigation reports..... Two (2) years (after applicant/employee is given notice of report)
  - Pre-Hire medical examinations ..... One (1) year
  - Offer and hiring records, employment contracts.... Six (6) years after termination
  - Immigration and tax forms upon hiring ..... Three (3) years

e. Employment documents

- EEO-1 reports..... Three (3) years
- Vets-100 forms ..... Two (2) years
- Affirmative Action Plans ..... Two (2) years (longer if adverse impact identified)
- Wage and hour records ..... Three (3) years
- Family and Medical Leave Act records ..... Three (3) years
- Individual employment records ..... Three (3) years after termination
- General employment records..... Three (3) years
- General employee benefit plans ..... Six (6) years (after filing)
- Retirement plans ..... Permanently
- Group health plans ..... Two (2) years under HIPAA (after loss of coverage)  
..... Six (6) years under COBRA (after loss of coverage)
- OSHA records ..... Five (5) years

## **Appendix 13: Common Regulatory Filing Requirements for IEA Locals**

The following pertain to all of our locals. Applicability to regions varies and is discussed under each heading. There may be situations in which additional requirements exist. If there is any doubt, contact the IEA Director of Business Services.

### **1. Taxpayer Identification Number (TIN)**

All new IEA locals must apply for a TIN on IRS Form SS-4. There is a procedure in place for the IEA to make the application on the local's behalf. Contact your UniServ Director or the IEA Director of Business Services for details.

A TIN is necessary in order to file all of the IRS forms discussed below, and also to open a bank account. Please be aware that it is not correct (or legal) to open an account in the name of the local or region by using the employer's TIN or an individual's Social Security number.

Regions are technically part of IEA but many have separate TINs. Regions should not independently file for a TIN. If a region has an issue with their number (or lack thereof), they should contact the IEA Director of Business Services.

### **2. Annual Return for Tax Exempt Organization**

All IEA locals must file one of the following forms with the IRS every year. The return is due on or before the 15<sup>th</sup> day of the fifth month following the end of the local's fiscal year. Therefore, if the fiscal year ends on December 31, the return is due no later than May 15 of the following year.

The form to be filed depends on the local's "annual gross receipts". "Gross receipts" is the total of all funds received by the local during a fiscal year excluding the IEA-NEA dues that the local receives and then transmits to the IEA. For locals in existence for three or more years, "annual gross receipts" is the average annual receipts for the three preceding years. Locals in existence for less than three years should contact the Director of Business Services, if there is a question as to which form to file.

<u>Gross Receipts</u>	<u>Form</u>
<i>Under \$50,000</i>	<i>990-N (E-Postcard)</i>
<i>\$50,000-\$200,000</i>	<i>990 (EZ)</i>
<i>Over \$200,000</i>	<i>990</i>

This requirement does NOT apply to regions.

### 3. Unrelated Business Income

IEA locals are considered by the IRS as being exempt from federal income tax because they operate as labor unions for the benefit of their members. If for some reason a local engages in an activity that is outside the normal parameters of a tax exempt labor union, it may be subject to tax on the receipts from that activity. Generally, this requirement does not apply if the receipts from the “unrelated activity” are less than \$1,000 in a given year.

Examples of an “unrelated activity” could be advertising, building rental, and sale of merchandise. Any questions on this topic should be referred to the Director of Business Services or a local tax professional. If there is a tax liability, it is computed on Form 990-T.

If regions engage in financial activity that generates \$1,000 or more in "unrelated activity", they should contact the IEA Director of Business Services.

### 4. Miscellaneous Compensation

For any calendar year, if the local pays an individual more than \$600 in remuneration for services provided, this must be reported to the IRS on Form 1099-MISC. This does not pertain to individuals who are classified as employees (see next section) and does not pertain to payments made as reimbursement for business expenses. Payment by the local of an individual’s IEA, NEA and/or local dues counts as remuneration for the purpose of this test.

EXAMPLE 1: The local pays the IEA-NEA local dues (total of \$580) for members of the Negotiating Committee and also pays them a \$200 stipend. For the purpose of this test, total remuneration is \$780, and the 1099-MISC must be filed.

EXAMPLE 2: The local pays an individual a \$200 stipend for participating on the Negotiating Committee and reimburses him/her \$800 for properly-documented expenses for attending the NEA RA. For the purpose of this test, total remuneration is \$200, and it is not necessary to file the 1099-MISC.

While the 1099-MISC is usually filed for payment to members, if the local pays someone outside the local for services rendered, the requirement applies to them as well.

### 5. Employee Compensation

If the local hires someone to provide services as a regular employee (i.e. taxes withheld, W-2 reporting, etc.), a variety of fairly complicated federal and state filing and reporting requirements apply. Locals that are considering doing this should seek professional assistance. If there is a question as to whether a given arrangement is “miscellaneous compensation” vs. “employee compensation”, contact the Director of Business Services or a local tax professional. You can get in trouble with the IRS if you “misclassify” someone.

## 6. Political Action Committee Activities

If your local has a Political Action Committee (PAC) which made political expenditures during the fiscal year, it must file IRS Form 1120-POL, "U.S. Income Tax Return for Certain Political Organizations" and may have to pay income tax. A political expenditure is defined by the IRS as an expenditure for the "function of the influencing or attempting to influence the selection, nomination, election, or appointment of any individual to any federal, state or local public office or office in a political organization."

Form 1120-POL must be filed and taxes paid by the 15<sup>th</sup> day of the third month after the end of your fiscal year.

*PAC's are not required to file Form 1120-POL, if their net investment income is \$100 or less.* This is why we encourage locals to keep their PAC funds in a non-interest bearing account.

## 7. Illinois State Board of Election Reporting

**NOTE:** If your local receives funding from IPACE, you should review the information available on the Illinois State Board of Elections' website at:

[www.elections.illinois.gov/campaigndisclosure/understandingcamp.aspx](http://www.elections.illinois.gov/campaigndisclosure/understandingcamp.aspx) and should periodically monitor their website to stay current with developments and changes.

If your local's political action committee either receives or disburses more than \$3,000 in any 12-month period (not necessarily a calendar year or your fiscal year), it may be subject to the reporting and disclosure requirements of the State Board of Elections. These include the initial registration on Form D-1 and then ongoing quarterly reporting of activities on Form D-2.

When your organization meets the \$3,000 threshold once, it is required to continue to file the D-2 forms forever, even if the threshold is not reached in subsequent years. There can be substantial fines for failure to do so. Please note that the D-1 must be filed within either two or ten business days after you meet the threshold, depending on how close you are to the next election, so it is important to be aware of your PAC's status with respect to the threshold and to be aware of your reporting requirements before the threshold is actually met.

When determining whether your local PAC is subject to the disclosure requirements, please keep in mind the following:

1. The Springfield office of the Illinois State Board of Elections has indicated that the regular IPACE rebates (up to \$10 per member) do not count toward the \$3,000 reporting threshold for cash receipts. However, the Chicago office has taken a different position. Questions about this issue should be directed to your IEA lobbyist or the IEA-NEA Director of Business Services.

2. Expenditures either in favor of, or in opposition to, a candidate for local public office (e.g. school board) OR a question of public policy (e.g. a referendum) DO count toward the \$3,000 annual threshold. These include direct contributions, "electioneering communication", or other expenditures that advocate for or against a candidate.
3. Expenditures for more general political purposes such as political education, "meet the candidates" events, etc. do NOT count toward the threshold.
4. New legislation effective in 2011 imposes contribution limits for political action committees. The limits are currently \$50,000 per candidate per election cycle. Locals with PACs are encouraged to stay current with regulations, as they may change from time to time.

Questions about filing requirements should be directed to the State Board of Elections, your IEA lobbyist or the Director of Business Services.

### **8. U.S. Department of Labor Reporting**

A few IEA locals that represent private-sector higher education employees must comply with the Department of Labor's annual reporting requirements. Depending on their level of activity, they have to file either the LM-2, LM-3 or LM-4 reports each year. If you have questions about this, please contact the IEA Director of Business Services or your UniServ Director.

#### **Resources**

- Questions about any of the above can be directed to the Director of Business Services.
- IRS forms and instructions are available at <http://www.irs.gov/>
- A very good set of instructions related to Illinois' campaign disclosure requirements, including examples, is available at <http://www.elections.state.il.us/InfoForCommittees.aspx>
- Additional information concerning IPACE is available at <http://www.ieanea.org/legislative/ipace/>
- Additional information about local financial issues, in general, is available at <http://www.ieanea.org/resources/financial-procedures/>

## Appendix 14: Bank Reconciliation

After review by another local officer, the treasurer should receive a bank statement every month for each bank account. The balance on the bank statement may not agree with the balance per the accounting records. The following items usually account for the differences between the bank statement balance and the “book” balance: outstanding checks, deposits in transit, bank service charges/credits, and errors by the bank and/or the treasurer. A bank reconciliation must be prepared monthly to verify that the two independent sets of records (bank statement and checkbook) are in agreement. The reconciliation should then be retained along with the other monthly financial documents.

The sample Bank Reconciliation worksheet may be used as follows:

- Complete the heading with the applicable month and year.
- Enter the ending bank statement balance at (1) and the ending (month-end) balance of your checkbook at (2).
- Compare the deposits listed on your bank statement with your record of deposits. Any deposits that the bank has not yet recorded should be listed as a Deposit in Transit (3). Any deposits that may not have been recorded in the accounting records, but are included in the bank statement, should be listed under “Plus: Correction” (4) with a brief description.
- Compare the amounts of the “Paid or Canceled” checks per the bank statement with entries on the accounting records. Any difference(s) must be recorded as a correction (5) and/or (6). This does not include outstanding checks. If the bank amount is incorrect, note this on the bank reconciliation and notify the bank of the error.
- Checks that have been written but have not yet cleared the bank by the end of the month are called “outstanding checks”. Compare your listing of checks written with the canceled checks from the bank. Any checks written which are not returned are “outstanding” and should be listed under (7) including check amount and check number.
- Follow-up should be performed when checks remain outstanding for more than two or three months. You should contact the payee to see if the check was received; if not, a new check should be issued and a “stop payment” order should be given to the bank for the original check. Checks outstanding for a long period of time may be subject to Illinois’ “Abandoned Property” filing requirements. It is best to avoid this, if possible.
- Identify the amounts of service charge and/or interest included in the bank statement that have not been recorded in the accounting records. This should be noted at (4) or (8) with a description. The transaction(s) should also be recorded in the accounting records.

## Appendix #14

- Review the bank statement for additional charges/credits not recorded in the checkbook. List these items at (6). Additional credits should be listed at (5).
- Total the two sides of the bank reconciliation. The adjusted bank balance and the adjusted checkbook balance (9) should agree. The checkbook balance should be corrected to reflect the adjusted balance. Adjustments would include service charges, other bank charges and credits, and errors made in the checkbook. Bank errors should not be included in the checkbook balance.

\_\_\_\_\_ EDUCATION ASSOCIATION

**“SAMPLE” BANK RECONCILIATION**

\_\_\_\_\_, 20 \_\_\_\_

Bank Statement Balance    \$   1  

Checkbook Balance    \$   2  

Plus: Deposits in Transit

Plus: Corrections/Interest

\$   3  

Description                      Amount

\$ \_\_\_\_\_

\_\_\_\_\_                      \$   4  

Total Deposits in Transit    \$ \_\_\_\_\_

\_\_\_\_\_                        5  

Subtotal                      \$ \_\_\_\_\_

Total Additions                      \$ \_\_\_\_\_

Subtotal                      \$ \_\_\_\_\_

Less: Outstanding Checks

Number                      Amount

Less: Service Charge/Corrections

\_\_\_\_\_                      \$   7  

Description                      Amount

\_\_\_\_\_                      \_\_\_\_\_

\_\_\_\_\_                      \$   6  

\_\_\_\_\_                      \_\_\_\_\_

\_\_\_\_\_                        8  

\_\_\_\_\_                      \_\_\_\_\_

Total Outstanding Checks \$ \_\_\_\_\_

Total Deductions                      \$ \_\_\_\_\_

Adjusted Bank Statement

Adjusted Checkbook

Balance                      \$ \_\_\_\_\_

Balance                      \$ \_\_\_\_\_



  9  

These Amounts Must Agree

## Appendix 15: IEA-NEA Monthly Dues Statement

Monthly dues statements are sent to the “membership contact” of every local. This person is responsible for either paying the bill or forwarding it to the correct individual for payment. A separate bill is not sent to the local treasurer. Since dues are the financial lifeblood of the IEA, it is critical that the correct name and address for the “membership contact” is on file; otherwise, the bills will go to the wrong person and may not be paid on time. This causes cash flow problems for the IEA and potentially causes penalties and other issues for the local. If you find that your local’s statement is being sent to the wrong person, please provide the Membership Processing Department with the name of the correct contact person as soon as possible.



The top part of the statement serves as a payment stub. The local should return this stub along with the appropriate payment to the IEA, P.O. Box 3384, Springfield, IL 62708. As noted below, the “Minimum Dues/Fees Due” shown on the payment stub does NOT include amounts that have been pledged for the NEA’s political action fund, NEA Fund for Children and Public Education (FCPE). If you wish to include FCPE payments along with your regular dues check, you can write in the dollar amount on the stub as shown on the following example, and pay the combined amount with one check. If you wish to pay FCPE separately, you should enclose a note indicating that the check is for FCPE; otherwise, the check will be applied to your regular dues balance.

Each month, you should pay the “Minimum Dues/Fees Due” PLUS any FCPE that has been collected. You should write the total of these two figures in the shaded area of the payment stub, and enclose a check as discussed above. Amounts due as late payment penalties are included in the “Minimum Dues/Fees Due” figure shown on the payment stub. To assist with our bookkeeping and minimize any reconciliation issues at the end of the year, if you are paying a penalty as part of the monthly remittance, you should write in the amount of penalty being paid as shown in the example. This seems like an unnecessary step, and it is, but we have not been able to get NEA to format the statement so that it’s more user-friendly.

To recap the payment stub: In the example, the local is paying \$8,324.38. This includes the dues payable (\$8,267.20), the penalties accrued (\$46.18), and \$11 in FCPE. By separating out the penalties and FCPE as shown, these amounts will be applied to the account correctly. If the local just sent \$8,324.38 with no detail, the entire amount would be applied to the dues payable, and at the end of the year, it would appear that the local had overpaid its dues and underpaid the penalty and FCPE. This would not be a drastic problem, but it would be confusing and is easily avoidable.



## Appendix #15

Beginning in the top left-hand section of the main body of the statement, the amounts listed are:

- The “Net Obligation” which is the total amount due from the local for dues for the current year, plus amounts pledged by members for FCPE. The membership chair should verify these figures regularly by comparing the detailed billing roster (sent along with the billing statement at regular intervals) to your local’s records as well as to the detailed dues deduction register that the employer should be providing along with the check for dues withheld every pay period.
- The “YTD Payments Received” is self-explanatory. Note that this figure is broken out between regular dues and FCPE, so you can tell if previous payments have been applied correctly. When the billing roster is sent, the last page of the roster includes a list of all payments that have been received for the year which should agree with the “YTD Payments Received”.
- The “Balance Payable” is the difference between the net obligation and the YTD payments. This figure tells you how much remains to be paid over the course of the year. It does not include amounts due for penalties.

The next four boxes are just informational items to help explain the change between the previous months “Balance Payable” and the corresponding figure for the current month. This information is not necessary in terms of understanding the amount due for the current month.

- “Previous Months Balance” is the “Balance Payable” for the prior month.
- “Current Month Obligation Change” reflects the dues impact of membership changes processed in the current month – new members, “drops”, etc.
- “Current Month Payments” is self-explanatory.
- “New Balance” is the previous balance, plus or minus any changes in the obligation, minus the current month payments.

Again, all four of these boxes are just informational.

The next box shows the amount of late payment penalties that have accrued to date. Locals are assessed a penalty of 2% per month, on balances over 30 days old.

- “Of the Amount on Right, This Part is Past Due” (see next section for explanation). If an amount is shown in this box, it is important to make sure that payments are “caught up” as soon as possible to avoid penalties and other problems associated with late payment.

- “Due per Transmittal Schedule” – Payments of dues are required according to this schedule:

November 1	10% of obligation
December 1	20% of obligation
January 1	30% of obligation
February 1	40% of obligation
March 1	50% of obligation
April 1	60% of obligation
May 1	70% of obligation
June 1	80% of obligation
July 1	90% of obligation
August 1	100% of obligation

Since the obligation for most locals fluctuates from month-to-month (due to new members, departing members, etc.), the amount payable for dues will fluctuate as well. Note that the amount in this box does NOT include any amounts pledged for FCPE. The “Due per Transmittal Schedule” on the example is computed as follows:

Obligation (dues only)	\$20,668.00
Percentage due by June 1	80%
Total due by June 1	\$16,534.40
“YTD Payments Received”	<u>\$ 8,267.20</u>
“Due per Schedule”	\$ 8,267.20




As of May 1, this local has paid 40% of its annual obligation (\$8,267.20 / \$20,668.00); according to the transmittal policy, it should have paid 70%. Therefore, 30% (70% minus 40%) of the annual obligation (\$6,200.40) is past due.

- “Minimum Amount Now Due” is the “Due per Transmittal Schedule” plus any applicable late payment penalties. In the following example, the \$8,313.38 consists of the dues payable (\$8,267.20) plus the penalties (\$46.18). Again, this does NOT include amounts payable for FCPE.



If your local has not yet paid its obligation for the prior membership year, you will receive a copy of this statement as well. You will be able to identify these because the membership year at the top of the statement (in the middle) will be highlighted. An example follows. Prior-year balances represent a serious situation and should be resolved as soon as possible.

# EXAMPLE

FRBL0150 ILLINOIS EDUCATION ASSOCIATION-NEA 100 EAST EDWARDS STREET SPRINGFIELD IL 62704	05-06	STATEMENT AS OF: 04/28/2006 PAYMENT DUE BY : 06/01/2006		
	ID: 	MINIMUM DUES/FEE DUE: \$ 8,313.38 PLUS: NEA FCPE 11.00 PLUS: Penalty 46.18 TOTAL REMITTED 8,324.38		
PLEASE RETURN THIS PORTION WITH YOUR PAYMENT .....Cut on dotted line.....				
ILLINOIS EDUCATION ASSOCIATION-NEA ACCOUNT SUMMARY		STATEMENT AS OF: 04/28/2006		
TOTAL 05-06	NET OBLIGATION	05-06 YTD PAYMENTS RECEIVED	ANNUAL 05-06	BALANCE PAYABLE
Dues/Fees	: \$ 20,668.00	\$ 8,267.20	\$	12,400.80
NEA FCPE	: \$ 11.00	\$ 0.00	\$	11.00
TOTAL	: \$ 20,679.00	\$ 8,267.20	\$	12,411.80
PREV MONTH'S BALANCE	+CURR MONTH OBLIG CHANGE	-CURR MONTH PAYMENTS	-NEW BALANCE	
Dues/Fees: \$ 12,400.80	\$ 0.00	\$ 0.00	\$ 12,400.80	
NEA FCPE :\$ 11.00	\$ 0.00	\$ 0.00	\$ 11.00	
TOTAL :\$ 12,411.80	\$ 0.00	\$ 0.00	\$ 12,411.80	
PRIOR PENALTY BAL :\$ 18.58	OF THE AMOUNT ON	DUE PER TRANSMITTAL SCHEDULE:		
CURRENT PAYMENTS :\$ 0.00	RIGHT, THIS PART	ALLINCLV : \$ 8,267.20		
CURRENT ASSESSMENT :\$ 27.60	IS PAST DUE			
NEW PENALTY BALANCE:\$ 46.18		TOTAL : \$ 8,267.20		
	\$ 6,200.40			
	MINIMUM AMOUNT (INCLUDES DUES, FEES, ARREARS, PENALTY )			
	NOW DUE TO BE CURRENT WITH SCHEDULE	: \$ 8,313.38		
	DUE BY	: 06/01/2006		

## Appendix 16: Local IPACE Rebate Guide

Listed below are guidelines regarding your local IPACE rebate. These reflect the rules and regulations set by the State Board of Elections which govern the use of political action funds and reporting requirements. Please review this information carefully and if you have any questions, please do not hesitate to contact IEA Government Relations.

### Use of Local IPACE Money

- **All IPACE funds must be kept in a separate checking account.**
- **DO use for all local political education programs.**
- **DO use for local campaigns and local contributions (e.g. school board elections).**
- **DO use on school board election contests and other local elections (e.g. referendum).**
- **DON'T contribute to state or federal candidates.**
- **DON'T contribute IPACE monies to the NEA Fund for Children and Public Education (FCPE).**
- **DON'T earn interest on IPACE monies.**
- **DON'T commingle IPACE funds with any other monies.**
- **DON'T use IEA regional office equipment or supplies for political activities without reimbursing the office from your IPACE account.**
- **DON'T accept dues monies from education associations for political action (either IPACE or NEA Fund).**

### Local PAC Reporting Requirements

If your local's political action committee either receives or disburses more than \$3,000 in any 12-month period (not necessarily a calendar year or your fiscal year), it may be subject to the reporting and disclosure requirements of the State Board of Elections. These include the initial registration on Form D-1 and then ongoing quarterly reporting of activities on Form D-2.

Once your organization meets the \$3,000 threshold once, it is required to continue to file the D-2 forms forever, even if the threshold is not reached in subsequent years. There can be substantial fines for failure to do so. Please note that the D-1 must be filed within either two or ten business days after you meet the threshold, depending on how close you are to the next election, so it is important to be aware of your PAC's status with respect to the threshold and to be aware of your reporting requirements before the threshold is actually met.

### Types of Expenditures that Trigger the Disclosure Requirements

When determining whether your local PAC is subject to the disclosure requirements, please keep in mind the following:

- **Your regular local IPACE rebate (up to \$10 per member) does NOT count as a receipt in terms of the \$3,000 annual threshold.**
- **Expenditures either in favor of, or in opposition to, a candidate for local public office (e.g. school board) OR a question of public policy (e.g. a referendum) DO count toward the \$3,000 annual threshold. These expenditures include direct contributions, "electioneering communications", or other expenditures that advocate for or against a candidate (referred to in the regulations as "independent expenditures").**
- **Expenditures for more general political purposes such as political education, "meet the candidates" events, etc. do NOT count toward the threshold.**

### Contribution Limits

New legislation effective in 2011 imposes contribution limits for political action committees. The limits are currently \$50,000 per candidate per election cycle.

If you have any questions about the use of this money, please contact your IEA lobbyist. Questions about filing requirements should be directed to the State Board of Elections, your IEA lobbyist, or the IEA Director of Business Services.

**NOTE: The above is only a summary of the State reporting and disclosure requirements.** If your local receives funding from IPACE, you should download and read the Illinois State Board of Elections' "*A Guide to Campaign Disclosure*": [http://www.elections.illinois.gov/DocDisplay.aspx?Doc=Downloads/CampaignDisclosure/PDF/CampDiscGuide.pdf&Title=AGuide to Campaign Disclosure](http://www.elections.illinois.gov/DocDisplay.aspx?Doc=Downloads/CampaignDisclosure/PDF/CampDiscGuide.pdf&Title=AGuide%20to%20Campaign%20Disclosure) and should periodically monitor their website to stay current with developments and changes.