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Dear Local or Region Leader:

We cannot emphasize too strongly that all of the volunteer leaders of our locals and regions need to be familiar with basic financial concepts, controls 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 an 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 at 1-800/252-8076, ext. 2221.

The IEA website ([www.ieanea.org](http://www.ieanea.org)) also contains a *Financial Procedures* section that contains a variety of resources that may be useful to you. We urge you to familiarize yourself with this section of the website. To get there, click on "RESOURCES" on the home page.

We hope that this manual helps you to better understand your role in safeguarding and managing the financial resources of your local or region. Good luck in your job this year! Remember – contact us if you need help.

Sincerely,

**Tom Tully**  
IEA-NEA Secretary-Treasurer

**Doug Barringer**  
IEA-NEA Director of Business Services

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## Overview

***Financial Procedures for Locals & Regions*** is organized 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”. 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 as well as 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 all tasks related to financial procedures that are not intuitively obvious. There should be procedures 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 that 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/FIDUCIARY OVERSIGHT**

### **Constitution and Bylaw Requirements**

All newly-elected local leaders should receive copies of these two documents. Leaders should review them annually to ensure compliance with requirements pertaining to such items as the local's fiscal year, budgeting, having an annual audit, etc. Bylaws should be reviewed every few years.

### **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 the school year and the dues collection cycle. 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. If you are unsure of your local's "official" fiscal year, contact the IEA Business Services Department.

### **Annual Audit – Large and/or Complex Associations**

We strongly recommend that larger locals engage 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.

Even if you don't feel that your local is "large," you may want to consider an outside auditor if several of the following apply to your local:

Local history of questionable integrity  
Files IRS Form 990 or 990-EZ  
Very politically active/Files form D-2  
High local dues/High level of local financial activity  
Frequently sends several delegates to the RAs  
Compensation paid to leaders  
"Private Sector" local

**Please visit the link to “What Sort of Audit Does My Local Need” located in the “Financial Procedures” section of the IEA website, for further information on this topic.**

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 locals.

Considerations in selecting an accounting firm would include:

- Is the firm licensed to practice public accounting in Illinois?
- 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 labor 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?
- If the local is required to file IRS Forms 990 or 990-EZ, will the firm prepare these?

**If you need help in identifying or screening potential candidates, you can contact the IEA Director of Business Services.**

### **Annual Audit – Smaller/Less Complex Associations**

Smaller associations 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 might 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.

Appendix 1 should be looked at as a "menu" from which you pick the actual audit procedures to be performed by your Committee. . Since every organization is different, you want to pick a reasonable number of procedures to be performed, and choose ones that seem most important. You can also consider changing the procedures every year, to ensure better coverage of your finances and maintain the element of "surprise."

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.

Having said that, a less-comprehensive audit is better than no audit at all. So you may want to "start small" with an audit that just includes a few items, and then keep adding to the checklist every year.

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

TO: \_\_\_\_\_ President

\_\_\_\_\_ Education Association

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 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.

\_\_\_\_\_  
Audit Committee Chair

\_\_\_\_\_  
Date

### **Annual Audit – Regions**

Regions are required to have an annual internal audit. The guidelines in the “Annual Audit- Smaller Associations” section should be followed. **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 contained in their annual rebate spreadsheet. 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.
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 this 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 that 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.

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

Once the budget is approved, it 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.

3. 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 next 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 first issue of the newsletter for next year, to compensate for the extra expense.”*

**If the above has not convinced you that your local needs to have a budget, please consider the following. IEA Board Policy 8.3 (see Appendix 13) 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.**

### **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 a reasonable amount of 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 to maintain “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 developing this 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 impact in any one year.

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

### **Investments/Interest Income**

Contrary to what you may have heard, it is not illegal to earn interest on your local's excess funds. However, if your local makes direct contributions to political candidates, earning over \$100 in interest in a year may trigger a tax liability. Contact the IEA Director of Business Services for more information. The following discussion assumes that you have determined that you will not have a tax liability due to your interest income.

IPACE accounts should **ALWAYS** be non-interest bearing. Regions have no restrictions on interest income.

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 else 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/region chair and other officers to safeguard the assets of the organization through a good system of controls.

Over the years, we have seen 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 3 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 3 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.

List of Generally Accepted Business Practices:

- Two signatures on checks
- Independent review of bank statements
- Adoption and utilization of annual budget
- Regularly prepared financial statements
- Annual audit or review of financial procedures and financial statements
- Proper collection and deposit of membership dues
- Succession plan for the training of new local Treasurers
- Proper accounting for IPACE funds
- Transparency of financial statements
- No checks made payable to cash
- No cash withdrawals
- Written reimbursement policies
- Receipts and/or documentation for all expenditures
- Segregation of duties
- Compliance with the rules and regulations of the IRS, DOL and the State Board of Elections
- Conflict of Interest
- Whistleblower Policy
- Trust is not an internal control!

## **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. The Board didn't even know where their bank account was located.

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 dozens of 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 for prior years' dues. This balance 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 out of his employer’s funds to pay a doctor bill, 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 discover 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 how 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. And whether you think of it this way or not, your local or region is a business that is run using your members' money.

A region chair 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/region 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 organization 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 organization's resources.

Appendix 4 lists some signs that can indicate problems with the control environment. These are grouped in descending order of urgency, but all of them are important.

## What to do when signs are detected

In most cases, the signs listed in Appendix 4 are not indications of anything other than poor controls. **Do not jump to conclusions and assume otherwise.** Even the presence of several of the "Level 1" or "Level 2" situations 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 “Level 1” 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 5.

If you provide funding to your delegates before the convention, they should understand that the money they are given is an advance, as opposed to a final payment. In other words, they must properly account for all of the funds that they spend, and return any unused portion 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 26 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 being reimbursed for the same expenditure twice. It is important that the Local Treasurer and the Region Treasurer communicate and understand what will be reimbursed by the local and the region.

An efficient way to handle “joint 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.

Another 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, but it is more administratively cumbersome than the previous example.

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. A lot of good information is provided at: <http://www.ieanea.org/legislative/ipace/>, or contact your IEA Government Relations lobbyist.

All active IEA members contribute to the Illinois Political Action Committee for Education (IPACE). To encourage local 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 6. For a listing of “dos and don'ts” related to these funds, see Appendix 11. Accounting for political funds is discussed in the “Regulatory Requirements” section.

Members may receive a refund of their 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 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.

You should be aware that, technically, your members' contributions to IPACE are not deductible for federal tax purposes.

### **Region Rebate**

The IEA Bylaws provide for funding to regions for operational purposes via the "region rebate". Detailed guidance is contained in IEA Board Policy 15, and is provided to regions as part of the spreadsheet discussed below.

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's rebates can be approved. A list of potential uses for region rebate funds is included as Appendix 7.

The amount of rebate that you receive in any given year is the product of your region's "full time equivalent members" (FTEs) times the budgeted amount of rebate per FTE. Your region's FTEs are calculated by dividing your members' total dues obligation by the dollar amount owed by a full-time certified member. So in effect, a full-time certified member represents 1.00 FTE, a full-time ESP represents .50 FTE, a quarter time certified member represents .25 FTE, etc. So if your region is made up of 2,000 full-time certified members, it has 2,000 FTEs, but if it is made up of 2,000 full-time ESPs, it has 1,000 FTEs.

In the rebate calculation that you receive from IEA, you may see an additional dollar amount labeled "Bylaw Amendment." Several years ago, the IEA amended its bylaws to provide extra rebate funds to regions with a lower FTE-to-member ratio than the average at the time. This recognized the fact that even if many of your members are not paying dues at the full-time certified level, it still costs money to provide services to them. So if your region's FTE-to-member ratio is less than 85%, you will receive extra funds.

As an example, imagine that your region is made up of 2,000 full-time ESPs (1,000 FTEs), and the budgeted per-FTE rebate is \$20. Without the bylaw amendment, your rebate would be \$20,000 (\$20 times 1,000 FTEs). With the amendment, your rebate is \$34,000, because you are given credit for an FTE-to-member ratio of 85%. 85% of 2,000 is 1,700, times the \$20 equals \$34,000. The extra \$14,000 is shown on your calculation as "Bylaw Amendment."

Once the region's budget is submitted to IEA, it can be amended by the region if its Bylaws permit this. Any such amendment does not have to be submitted to IEA.

## **Insurance Coverage**

The NEA provides fidelity (bond) insurance coverage to protect associations from theft or misappropriation of funds. 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 written 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 and list of retention periods for various documents, 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. An alternative is to have your Board formally adopt the NEA guidelines as your own policy. Further information from NEA is available at <http://www.ieanea.org/media/2009/09/Record-Retention.docx>.

## **REGULATORY REQUIREMENTS**

A concise summary of the common filing requirements for IEA locals is provided in Appendix 9.

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

The IRS exists to enforce the tax laws of the United States. These laws include various reporting requirements for tax exempt organizations such as the IEA and its locals. You are very likely to have little or no interaction with the IRS. If you have 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. 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, serve its members, and 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. And as noted above, tax-exempt labor unions still must pay state and local sales taxes.

**Taxpayer Identification Number:** The IRS needs ways 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, associations 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).

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 keeps this number on file for easy access. If you are unsure of your TIN, you can contact the Director of Business Services.

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. Even though the IRS has made it fairly simple to apply for a TIN online, **please do not do this.**

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. If you find that your local or region may have done this, please contact the IEA Director of Business Services immediately.

**Reporting:** All locals (not regions) 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. The following table (current as of 2017) shows the return that you must file each year:

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

- *If you have total assets over \$500,000, you must file Form 990 regardless of the amount of your "gross receipts."*

The vast majority of IEA locals 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 that are 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.

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 are strongly urged to seek professional help. 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 and if regularly carried on, 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, 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. The year noted on most forms is the calendar year in which your fiscal period begins, not the year when it

ends. So when filing Form 990-EZ for the period July 1, 2014 through June 30, 2015, you would use the 2014 version of the form, not the 2015 version.

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. As an illustration, if you pay one of your members \$1,000 to work on your website in the evenings, you would be required to report this to the IRS. If you paid Best Buy to perform the same services, you would not.

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 (excluding gift cards- see page 28) 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 Social Security numbers on file for all delegates and members who receive stipends. It is essential that all private data such as Social Security numbers be kept in a secure location or password-protected file.



# SAMPLE

Do Not Staple 6969

Form <b>1096</b> Department of the Treasury Internal Revenue Service	<b>Annual Summary and Transmittal of          U.S. Information Returns</b>	OMB No. 1545-0108  <b>2017</b>												
FILER'S name  Street address (including room or suite number)  City or town, state or province, country, and ZIP or foreign postal code														
Name of person to contact		Telephone number												
Email address		Fax number												
<b>For Official Use Only</b> 														
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 Form 1099-MISC with NEC in box 7, check <input type="checkbox"/>							
W-2G 32	1097-BTC 50	1098 81	1098-C 78	1098-E 84	1098-Q 74	1098-T 83	1099-A 80	1099-B 79	1099-C 85	1099-CAP 73	1099-DIV 91	1099-G 86	1099-INT 92	1099-K 10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1099-LTC 93	1099-MISC 95	1099-OID 96	1099-PATR 97	1099-Q 31	1099-QA 1A	1099-R 98	1099-S 75	1099-SA 94	3921 25	3922 26	5498 28	5498-ESA 72	5498-QA 2A	5498-SA 27
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Gift Cards: The IRS considers any gift cards given out by an IEA local as taxable compensation, no matter how small the dollar amount. So if your local has employees who receive W-2 wages, the dollar amount of gift cards given to them must be added to their taxable compensation on their W-2s at the end of the year. For any of your other members, the amount of gift cards “counts” toward the \$600 annual threshold for issuing a 1099-MISC form. So if you pay your President a \$590 stipend for his services, you do not have to report this to the IRS, but if you also give him a \$20 gift card for any reason, his compensation is now \$610 and you need to report it.

The situation with gift cards and IEA regions is more complicated, because regions are technically part of the IEA instead of being separate organizations as our locals are. So besides the above, regions need to be aware that any gift card provided to an IEA employee is taxable compensation and the IEA has to report it to the IRS on the person’s W-2. The IEA has a general rule that it does not pay for gift cards provided to IEA employees, to avoid the administrative nightmare that would result. Regions should adopt this same policy! And as a final complication, these groups are technically IEA employees: Grassroots Political Activists, Member Volunteer Coordinators, and IEA UniServ Interns.

In order to show the IRS (in case of an audit) that you are making a good-faith effort to comply with the law, you should always maintain a record of the names of anyone who receives a gift card from your local or region, as well as the date and the dollar amount. Better yet, you are encouraged to avoid gift cards altogether.

If your local pays for political expenditures out of its general operating funds, 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.

***Locals are not required to file Form 1120-POL if their net investment income is \$100 or less.*** So you may need to keep this in mind when investing your local's funds.

Contact the IEA Secretary-Treasurer or the Director of Business Services with questions pertaining to filing or completing any of 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.
- Appendix 12 lists the information requested by the IRS agent during a recent audit of an IEA local.

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.

The IRS is notorious for sending notices to the wrong parties. So if you get a notice, the first thing that you should do is to check the taxpayer identification number which is usually in the upper-right hand corner of Page 1. If this is not yours, reply to the notice and inform the IRS of the discrepancy.

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. Without this, if your correspondence is lost in the mail, they may assume that you did not send it in the first place.

## **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.il.gov](http://www.elections.il.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 \$5,000 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 \$5,000 within a 12-month period for electioneering communication** – defined essentially as any broadcast, cable or satellite communication, including radio, TV or internet communications, 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 \$5,000 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. Procedures for disclosing such contributions will be discussed later in this booklet. A candidate's personal contributions or loans to his campaign must also be disclosed and considered when determining if or when the threshold has been reached. Once the \$5,000 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 \$5,000 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 10 business days. If a committee forms within the 30 days prior to an election, the Statement of Organization must be filed within 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 (at 217/782-5959) or by e-mail (at [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.

**Schedule A-1:** Any time your political committee receives a contribution of \$1000 or more from a single source, the contribution(s) must be disclosed on a

special stand-alone report called a Schedule A-1. Generally a Schedule A-1 must be filed within 5 business days after receiving the contribution. However, if the contribution is received within 30 days before an election, the Schedule A-1 must be filed within 2 days.

The Springfield office of the Illinois State Board of Elections has indicated that the regular IPACE rebates do not count toward the \$5,000 reporting threshold for cash receipts. 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.

You should also know that the Board of Elections randomly audits a percentage of registered PACs every year. If you are selected for an audit, please contact the IEA Director of Business Services as soon as possible, before making arrangements for the audit. You should also contact the Director if your PAC is penalized for late filing or other report-related issues. Frequently, these penalties can be appealed, waived or put "on hold."

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 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 IPACE contribution is not deductible by our members for federal income 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 four 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. Locals **MUST** also 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 11).
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 31).
4. If your local has IPACE funds that you do not plan on using in the foreseeable future, it is acceptable to return them to IPACE. Simply make out a check payable to IPACE and mail it to the Director of Business Services at IEA Headquarters, 100 E. Edwards Street, Springfield, IL 62704.

**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 10. 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>

### **Scholarships**

Quite a few IEA locals provide scholarships. There’s no problem with this, as long as you follow these rules.

1. If you ask people to donate money to your local for any purpose that could be construed as “charitable” (such as scholarships), you may be required to register with the Illinois Attorney General and then file annual reports each year. The current thresholds are \$4,000 in charitable assets on hand at any time, OR receipt of over \$15,000 in contributions in a 12-month period. If people make donations to your scholarship fund and you may be close to either of these thresholds, you should seek advice as to how to proceed.
2. As a labor union, contributions that you receive are **NOT** deductible by the contributor for federal income tax purposes. This is the case no matter what the funds are used for. If you ask for contributions in writing (flyers, emails, etc.) you are required to include a statement to this effect. This statement must be

“conspicuous and easily recognizable.” You don’t want someone to contribute to your scholarship fund, get audited, and then say that you told them the deduction was deductible.

3. If you are considering any sort of gambling (raffles, bingo, etc.) there are State laws regarding licensing, fees, etc. There are fines for persons and organizations that don’t comply.
4. You’re probably better off if there is some sort of business purpose for the scholarships. If you restrict applicants to students who are studying to become teachers or other school employees, then you are helping to train the next generation of union members. If you restrict applicants to children of local members, then you are serving the interests of your members. If you don’t have either of these restrictions, then your only business purpose is to build a good image for your local. This isn’t necessarily a problem, but it might be harder to justify.
5. And this is more of a local public relations consideration, but you are probably better off if you have a good, objective process for awarding the scholarships. This helps you to avoid any perception of favoritism.
6. Scholarships should be provided to a student at an educational institution for the purpose of study. Scholarships are tax-free as long as the candidate is pursuing a degree at an educational institution and the funds are used to pay for tuition and fees required for enrollment or attendance at the institution such as, fees, books, supplies or equipment required for the courses at the educational institution. Whenever possible it is best if the funds are provided directly to the educational institution.

## **TECHNICAL TASKS**

### **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 will if your organization is simple and only generates two or three transactions every month. However, your choice will also be influenced by your personal preferences (for example, 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; 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 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:

The screenshot displays a financial report titled "LOCAL BUDGET COMPARISON:2" for the period from 9/1/2007 to 8/31/2008. The report compares actual performance against a budget. The data is as follows:

Category Description	9/1/2007 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
TOTAL RECEIPTS	13,153.00	12,850.00	303.00
<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
TOTAL EXPENSES	12,408.00	12,250.00	-158.00
<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
IEA-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
IEA-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 Excel 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
<b>TOTAL INCOME</b>	<b>3,150.00</b>	<b>10,500.00</b>
<b>EXPENSES</b>		
IEA-NEA DUES	3,000.00	10,000.00
MEETINGS	116.00	250.00
NEWSLETTERS	60.00	200.00
<b>TOTAL EXPENSES</b>	<b>3,176.00</b>	<b>10,450.00</b>
<b>NET GAIN (LOSS)</b>	<b>(26.00)</b>	<b>50.00</b>
<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 smaller 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 technically more accurate. 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 IEA 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.

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 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 maintained separately 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 (see important note on page 13). 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. online 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 electronically or by mail, its location is less important.

Auditability refers to the bank's ability to provide the basic information that you should be retaining to support your financial transactions. 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 an auditor (your audit committee, an outside CPA or a governmental body such as the IRS) being able to review the records efficiently and objectively. You also need copies of this information to support your system of internal controls (checks and balances). **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, before you physically go to the bank to open the account, you should call them. Explain that you are an unincorporated nonprofit association, and ask them what documentation they are going to need from you. You will definitely need your local or region's Taxpayer Identification Number (discussed further under “Regulatory Requirements”) and the driver's licenses of everyone who will be able to sign on the account. However, they may require other documentation as well, and this varies widely from bank to bank.

The bank may ask for your “Article of Incorporation.” These don't exist, because you are not incorporated. They may ask you for your “IRS Determination Letter.” This also does not exist, but the IEA Director of Business Services can provide you with a substitute. They may need a form signed by an officer of the local to verify that the signers are

actually authorized to do so. Or they may have other requirements. It is likely that you will save yourself an extra trip to the bank if you find out their specific requirements up front so that you can take all of the required documents with you to open the account.

**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 enter checks in the checkbook immediately. This convenience should be weighed against the additional cost of these checks. Please note that carbon copies may be useful for bookkeeping, but are useless for auditing purposes; in other words, if you have carbon copies, this does not eliminate the need to obtain copies of the original checks from your bank.
- 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 probably do not need both 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 on the IEA website under "RESOURCES/FINANCIAL PROCEDURES. 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 on hand 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.

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. Remember that even if the current officers are 100% honest, you have no such assurance about the next group.

## **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 have professional help in meeting its filing requirements.

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 local associations 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

Certain higher education locals may request a modified dues payment schedule. Contact the IEA Membership Processing Supervisor for details.

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 2% per month late payment penalty, with a 30-day grace period. Please remember that for purposes of the grace period and late payment penalties, a payment is considered received on the date that it is received and processed at IEA, not on the postmark date.

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". Your January payment will then be \$200.*

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.

Finally, the IEA Bylaws designate its local associations as collection agents for IEA and NEA dues. **A local's responsibility to collect and transmit 100% of the IEA-NEA dues obligation is not affected by its failure to collect this amount due to its own errors or the errors of its employer.** So you need to have systems in place to make sure that you are collecting the correct amount of dues every pay period. This is discussed in more detail later in this section.

**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 10 for detailed instructions. Note that as we go to press in the spring of 2015, a new NEA computer system is in the works. So the statement format and other reports/procedures may be changing in the near future.

**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. 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 payments may involve a "macro approach," a "micro approach," or a combination of the two.

To use the "macro approach" to test the accuracy of an individual dues payment, find the total IEA-NEA dues obligation, plus any FCPE that is due, on your latest IEA dues billing statement. It's near the middle of your statement, on the left side. Add to this the total amount of local dues that you expect to collect for the year. Then, if your local waives the dues for any of your leaders as compensation for their services, the total dollars to be waived should be subtracted. Divide the resulting number by the number of pay periods for which dues are withheld. This should produce a result that is close to the amount of the latest check received from your employer.

### **EXAMPLE:**

Dues and FCPE obligation from IEA statement	\$10,000
Local dues to be collected	1,000
Dues paid on behalf of President	-500
Total to be collected	\$10,500
Pay periods withheld	10
Each check should be approximately	\$ 1,050

A more sophisticated method is the "year to date macro approach." To do this, perform the same calculation as above to arrive at the \$10,500. Subtract from this the total amount of dues payments already received during the current membership year. Divide the result by the number of remaining pay periods to be deducted. The result should be the approximate amount of your next dues check. You should do this every pay period.

### **EXAMPLE**

Total to be collected (see above)	\$10,500
-----------------------------------	----------

Year to date payments received	-3,500
Remaining payments to be received	\$7,000
Payments remaining	7
Next check should be approximately	\$1,000

The “micro approach” involves tracking the dues obligation for each member and making sure that you are receiving the correct portion of this every pay period. A spreadsheet is generally used for this purpose. If you do not have a great deal of employee turnover, this approach may not involve a lot of work. If you do, it can be a challenge. In the latter case, you will be well-served if you have a good relationship with your employer’s bookkeeping department, as they may be able to provide reports that will be useful to you. At a minimum, you will need to make sure that you receive a detailed list along with every dues check, showing the amount withheld for each member.

You should retain each dues listing for audit purposes and also give a copy to your membership contact. He/She will use the listing to verify that the IEA’s membership roster is in sync 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.

**Region Rebate Verification**

Region Chairs should ensure that the Region Treasurer has a procedure in place to verify the accuracy of the annual region rebate.

In July, you will receive notification of your preliminary region rebate. This figure will become the basis for your region budget. Your rebate will be expressed as the product of a dollar figure times your region’s total full-time equivalent members (FTEs).

The per-FTE dollar amount is based on the funding formula in the IEA Bylaws, which generates the total region rebate expense in the annual IEA budget. The amount should change every year based on (but not necessarily exactly) the change in IEA dues. You should test this for reasonableness every year. Contact the Director of Business Services with questions.

EXAMPLE: Last year the IEA dues were \$400 and the per-FTE region rebate amount was \$20.00. This year, the dues went up to \$412, a 3% increase. So you would expect the per-FTE figure to go up by approximately 3%, to around \$20.60.

A member who is in the highest IEA dues category is considered to be 1.00 FTE. So a full-time certified member is 1.00 FTE, a half-time certified member is equally valuable but is only counted as .50 FTE because he/she pays 50% of the full-time certified dues. This progresses through the dues categories until you get to the quarter-time ESPs, who are considered .125 FTE. Feepayers count the same as members in the FTE calculation.

So unless your region is composed of 100% full-time teachers, your region's FTEs will be LESS than the total number of members/feepayers in your region. The degree to which it is less will depend on the mix of members in your region's locals. Regions that are predominately ESPs and/or part-time certified members will see a significant difference between their members and their FTEs. You should review this figure for reasonableness. If the FTE figure is higher than the number of members in your region, there is almost certainly something wrong and you should bring it to the IEA's attention sooner rather than later, because at some point the error will be discovered and your rebate will be adjusted. If your FTE figure looks low to you, the IEA will be happy to provide you with a printout showing the detail, which you can review for accuracy.

If your ratio of FTEs/members is less than 85%, there should be an amount added to your rebate that is labeled "Bylaw Amendment." This is a calculation based on the IEA's recognition that some regions are penalized in the FTE calculation if a disproportionate percentage of their members are part-time and/or ESPs. So if your ratio is less than 85%, an amount is calculated and added to your rebate so that the amount is adjusted up to what it would have been if your FTE/member ratio was 85%. So you should review your FTEs and members and make sure that you received the adjustment if warranted.

EXAMPLE: Your region consists of 2,000 full-time ESPs, and the budgeted rebate per FTE is \$20. Your region is credited for 1,000 FTEs since all of its members pay 50% of the full-time certified dues. Before the bylaw amendment was passed, your rebate would have been \$20,000 (1,000 FTEs times \$20). The bylaw amendment gives you credit for 1,700 FTEs (85% times 2,000), or \$34,000. The additional rebate, \$14,000, is shown in your calculation as "Bylaw Amendment."

You may have a deduction from your rebate if your Region Chair elects to have the IEA provide a new computer ahead of the normal replacement schedule. If you have the deduction and don't understand why, you should question the IEA Business Services Department about this.

Make sure that you receive the appropriate amount of in-region funds (the amount approved in the current IEA budget).

Your preliminary notification should include the amount of rebate and in-region funds that are being carried over from prior years. It is very important that you check these figures to make sure that they agree with your records.

Remember that at this point your rebate is preliminary and will change based on your FTEs as calculated in January or February of the next. The revised rebate should be verified as shown above.

## **Documentation**

“Documentation” refers to the process used to ensure that there is something on file for each financial transaction to; a) support the business purpose of the transaction in case of an audit by the IRS or other body; b) facilitate preparation of the financial reports and; c) prove that the transaction was properly approved per your organization’s policies.

**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 that lists the individual(s) who provided the currency, the dollar amount that each provided, and the purpose of the receipt.

Whenever 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 gift cards are involved (which we discourage), the names of the recipients and the denomination of the card should be documented

- If meals are involved, the names of each person attending should be noted in the documentation.

If the documentation includes the line item in your chart of accounts that the item will be charged to, this will facilitate the accurate preparation of your financial reports.

Many 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

<b>Acct. No.</b>	<b>Expense Classification</b>	
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	_____
	<b>TOTAL</b>	_____

**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 and that proper documentation is maintained. Both the organization and the traveler may run afoul of the IRS unless travel expenses are computed and documented correctly.

The standard “IEA Travel” form (see Page 58) 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 reimbursable. A normal level of tipping, in accordance with this policy, is reimbursable 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 reimbursable.

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 legitimate business 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 already paid to the traveler should be noted on the expense report so that he/she can be reimbursed accordingly.

See “Considerations for RA Delegates” in the “Administration and Fiduciary Oversight” section, and Appendix 5, 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 receipt and disbursement documentation, travel documentation, bank reconciliations, financial reports, bank statements, and check copies.

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?

## Appendix 1: "Sample" Audit Checklist

### 1. Review Board Minutes

- A. Copies of treasurer reports included.
- B. Treasurer report reviewed.
- 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. Bank-provided check copies should be on file (NOT carbon copies)
- C. Compare financial records to treasurer reports in minutes.
- D. Do the financial reports include a budget/actual comparison?
- E. Bank statements should be mailed directly to someone besides the treasurer.
- F. Ensure that the bank account(s) are reconciled monthly – and agree with bank statement and financial records.
- G. Filing system OK?

### 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 IEA Director of Business Services a list of IPACE rebate payments made to the local, and compare it to the local's deposits.
- B. Make sure all were deposited intact.
- C. Make sure all were deposited timely (1-2 business days).
- 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, especially pertaining to stipends, dues paid by the local on behalf of leaders, and unaccounted-for travel advances..
- F. If gift cards are purchased, verify that names/dates and amounts are on file, and that IRS reporting requirements are met.

## Appendix #1

- G. If refunds of dues are made to members, test a sample for correct computation.
- H. Get list of dues checks received by IEA and compare it to the dues payments made per the local's records.
- I. No use of member dues for federal or state political action (e.g. NEA Fund for Children and Public Education).
- J. Account for all check numbers.

### 5. **Dues Income**

For the most recently-completed school year, perform the following computation:

Employer dues checks deposited  
- IEA-NEA dues obligation from last billing statement  
= Local dues income (approximate # of members, times local dues per member)

Any dues paid on behalf of leaders will be a reconciling item in this calculation.

Review and assess the local's system for monitoring employer dues payments for accuracy and completeness.

### 6. **Fiscal Operations**

For the most recently-completed school year, perform the following computation:

Local dues income (as computed in #5)  
+ Any other income  
= Total funds available  
- All expenses (other than IEA-NEA dues)  
= Net profit (loss)  
+ Beginning cash  
= Ending cash

Use the above to assess the local's fiscal health, possible trends, use of member resources, etc.

### 7. **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.
- D. Review last three years' dues payment history (obtain from IEA Membership Department). Look for a record of regular payments with no late payment penalties.

**8. 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 (\$5,000/12 months).

**9. 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, you can do so, as long as the two figures equal each other and effectively zero themselves out. You can also choose to leave them out of the budget altogether, and just include your local dues as income. 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 Page 14, and Appendix 13.

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:

	Total estimated expenditures
LESS .....	Total estimated non-dues income
PLUS .....	Budgeted "profit", or
LESS .....	Budgeted "deficit"
EQUALS .....	Dues income needed

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 in some way. Also, your monthly financial reports should include a comparison of your actual financial activity with your budget.

## Appendix 3: 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 who receives checks should immediately stamp them “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 NEVER 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.**

### Appendix #3

- **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 is very important and helps to prevent 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).**
- **Gift Cards: There are two issues with gift cards. One is that they are basically the same as cash. So all of the problems associated with handing out cash apply equally to gift cards. The other is that the IRS, with a few isolated exceptions, looks at gift cards as compensation. So you have documentation and possibly reporting requirements when you start handing out gift cards. So we strongly suggest that you don't.**

## ▪ Appendix 4: 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 may be present. See discussion on pages 16-19.***

- **Level 1** 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 missing, there is no monthly financial reporting, etc.).
- Bank statements are not reviewed by someone other than the treasurer.
- The local is consistently behind in paying its IEA-NEA dues
- 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."
- The treasurer is reluctant to let others examine the accounting records
- Checks written to "Cash"
- Cash withdrawals from the local's bank account
- Cash deducted from bank deposits

### **Level 2**

- No annual review of the books/records by an outside body
- Signing of blank checks
- Purchase of gift cards, especially in large quantities or amounts, or with inadequate documentation
- No budget or no comparison of actual results to the budget
- Checks written payable to the check signer without a second signature
- People in positions of authority appear to be living beyond their means
- 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.
-

- No written, enforced guidelines on:
  - Conflict of interest
  - Ethics
  - Documentation requirements/retention
  - Reimbursement of expenses
  - Check signing
  - 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)

### **Level 3**

- 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.

## Appendix 5: Sample Policy for Representative Assembly (RA) Delegates

### Delegate Reimbursement

The IEA, region councils and local associations 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, and description of expenses, including receipts for all expenses above \$10, and submit such substantiation on the form designated by the provider of the funds, 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 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) disciplinary proceedings may be initiated against delegate before the IEA Review Board; 3) court proceedings may be initiated to collect the excess amounts; and 4) the delegate may be denied future delegate funding.

### Delegate Accountability

It is the responsibility of IEA 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) disciplinary proceedings may be initiated against the delegate before the IEA Review Board; 3) court proceedings may be initiated to collect the excess amounts; and 4) 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 #5

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
- Gift cards

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

## **Appendix 6: FAQ's – Local IPACE Rebates (Updated 7/16/2013)**

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

The IPACE fiscal year runs from July 1 through June 30. Local rebates are available for contributions received during the prior fiscal year, and there is a twelve-month period in which to request the prior year's rebate. For example, rebates for contributions received by IPACE during the 2011-2012 fiscal year can be requested by a local any time after June 30, 2012 and before July 1, 2013. Locals may request three different levels:

1. Level I Standard Rebate - is \$6.00 per IPACE contributing member.
2. Level II Special Rebate – is an additional \$9.00 per contributing member (\$15.00 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. Finally, under unusual circumstances a Level III Priority Project rebate of more than \$15.00 may be available. This rebate requires a budget and 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 7: Ideas for Use of Region Rebate Money

The Strategic Financial Planning Committee outlined a series of recommendations throughout its work several years ago. 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 #7

- **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 CORE Conferences, 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

## Appendix 8: 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.

## Appendix #8

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.

The following retention periods shall apply to the documents indicated:

- |   |   |
|---|---|
| a. Leases, contracts, retainer agreements, and other documents that create legal rights and obligations   | Six (6) years after termination of the transaction in question.   |
| b. Documents relating to the election of officers   | One (1) year  |
| c. Financial documents  |   |
| -- LM-2 Reports and supporting records  | Seven (7) Years   |
| -- Membership enrollment & 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 supporting records   | Six (6) Years   |
| -- Tax filings and returns  | Permanently   |
| -- Records supporting general tax filings and returns (This includes common day-to-day records such as bank statements, cancelled checks, etc.) | Seven (7) Years   |
| -- Employment tax filings   | Four (4) Years<br>(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<br>(for unsuccessful applicants)<br>Three (3) Years after termination<br>(for successful applicants) |
| -- Tests and Other Similar Selection Criteria   | Two (2) Years<br>(longer if adverse impact identified)  |

-- Employment Applications, Resumes, Reference Letters, and Other Documents Received from Job Applicants	One (1) Year (for unsuccessful 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 HIPPA (after loss of coverage) Six (6) Years under COBRA (after loss of coverage)
-- OSHA Records	Five (5) Years

## Appendix 9: 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. Please DO NOT apply for a TIN yourself.

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.

\*Locals with assets exceeding \$500,000 must file Form 990 regardless of their level of gross receipts.

## Appendix #9

Virtually all locals that must file the 990-N have authorized the IEA to do so on their behalf. New locals should contact the IEA Director of Business Services about this.

### 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 as soon as possible.

### 4. Miscellaneous Compensation

For any calendar year, if the local pays an individual \$600 or more 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. So does the value of gift cards given to members, for any amount, for virtually any reason.

EXAMPLE 1: The local pays the IEA-NEA local dues (total of \$580) for members of the Negotiating Committee, pays them a \$200 stipend, and gives them a \$20 gift card for their service. For the purpose of this test, total remuneration is \$800, 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 payments to members, if the local pays a non-member 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 have issues with the IRS if you “misclassify” someone.

## 6. Political Action Committee Activities

If your local made political expenditures out of its general operating funds, it may have to 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. This does not apply if the local’s investment income is less than \$100.

Contact the IEA Director of Business Services if you have any questions about this requirement.

## 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 \$5,000 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 \$5,000 threshold once, it is required to continue to file the quarterly 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 do not count toward the \$5,000 reporting threshold for cash receipts. Questions about this issue should be directed to your IEA lobbyist or the IEA-NEA Director of Business Services.

## Appendix #9

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 \$5,000 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. 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 10: 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 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 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 penalties and dues payable, and at the end of the year, it would appear that the local had overpaid its dues and underpaid the and FCPE. This would not be a drastic problem, but it would be confusing and is easily avoidable.



## Appendix #10

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

FBLO150 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  TOTAL REMITTED <b>8,324.38</b>																								
PLEASE RETURN THIS PORTION WITH YOUR PAYMENT .....Cut on dotted line.....																										
ILLINOIS EDUCATION ASSOCIATION-NEA ACCOUNT SUMMARY		STATEMENT AS OF: 04/28/2006																								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>TOTAL 05-06</th> <th>RET. OBLIGATION</th> <th>05-06</th> <th>YTD PAYMENTS RECEIVED</th> <th>ANNUAL 05-06</th> <th>BALANCE PAYABLE</th> </tr> </thead> <tbody> <tr> <td>Dues/Fees</td> <td>: \$ 20,668.00</td> <td></td> <td>\$ 8,267.20</td> <td>\$ 12,400.80</td> <td></td> </tr> <tr> <td>NEA FCPE</td> <td>: \$ 11.00</td> <td></td> <td>\$ 0.00</td> <td>\$ 11.00</td> <td></td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>: \$ 20,679.00</b></td> <td></td> <td><b>\$ 8,267.20</b></td> <td><b>\$ 12,411.80</b></td> <td></td> </tr> </tbody> </table>			TOTAL 05-06	RET. 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		<b>TOTAL</b>	<b>: \$ 20,679.00</b>		<b>\$ 8,267.20</b>	<b>\$ 12,411.80</b>	
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<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">                     PRIOR PENALTY BAL : \$ 18.56                      CURRENT PAYMENTS : \$ 0.00                      CURRENT ASSESSMENT : \$ 27.60                      NEW PENALTY BALANCE: \$ 46.18                 </td> <td style="width: 20%;">                     OF THE AMOUNT ON                      RIGHT, THIS PART                      IS PAST DUE                 </td> <td style="width: 50%;">                     DUE PER TRANSMITTAL SCHEDULE:                      ALLINCLV : \$ 8,267.20                       TOTAL : \$ 8,267.20                 </td> </tr> <tr> <td></td> <td style="text-align: center;">\$ 6,200.40</td> <td></td> </tr> </table>			PRIOR PENALTY BAL : \$ 18.56 CURRENT PAYMENTS : \$ 0.00 CURRENT ASSESSMENT : \$ 27.60 NEW PENALTY BALANCE: \$ 46.18	OF THE AMOUNT ON RIGHT, THIS PART IS PAST DUE	DUE PER TRANSMITTAL SCHEDULE: ALLINCLV : \$ 8,267.20  TOTAL : \$ 8,267.20		\$ 6,200.40																			
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MINIMUM AMOUNT (INCLUDES DUES, FEES, ARREARS, PENALTY ) NOW DUE TO BE CURRENT WITH SCHEDULE : \$ 8,313.38 DUE BY : 06/01/2006																										

## Appendix 11: Local IPACE Rebate Guide

Listed below are guidelines regarding your local IPACE rebate. There are rules and regulations set by the State Board of Elections which govern the use of political action funds. Listed below is some important information regarding the use of this money and possible 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

**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)

### **State Board of Elections Information**

If your local's political action committee either receives or disburses more than **\$5,000** 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 periodic reporting of activities on Form D-2.

Once your organization meets the **\$5,000** threshold once, it is required to continue to file the D-2 forms 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.

### **Local PAC Disclosure Requirements**

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

## Appendix #11

Your regular local IPACE rebate (up to \$15 per member) does NOT count as a receipt in terms of the \$5,000 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 \$5,000 annual threshold.
- Expenditures for more general political purposes such as political education, “meet the candidates” events, etc. do NOT count toward the threshold.

The latest campaign disclosure information is available from the Illinois State Board of Elections ([www.elections.state.il.us](http://www.elections.state.il.us)) or from your county clerk.

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. IEA Headquarters telephone – 217-544-0706 or 1-800-252-8076.

**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.

## Appendix 12: Possible IRS Information Requests

### Documents

Articles of incorporation, bylaws, IRS determination letter  
Board/Committee meeting minutes  
Conflict of interest policy  
Copy of expense reimbursement plan  
General ledger, cash receipts journal, cash disbursements journal  
List of all bank accounts  
Copies of bank statements and cancelled checks  
Credit card statements and receipts  
Invoices and receipts  
Schedule of donors to the organization  
All expense reimbursement requests, including documentation  
Copy of any contract of \$5,000 or more  
Documentation of process to determine compensation of officers, including committee minutes  
Copies of Forms 941, W-2 and 1099-MISC  
List of officers  
Breakdown of dues received: IEA-NEA vs. local  
Copy of two newsletters  
Copy of union handbook  
All workpapers used to prepare the annual tax return (990-EZ)  
Charter  
Document retention policy

### Questions

Are regular Board meetings held? Describe.  
How often are dues paid to IEA-NEA?  
What portion of the dues are for political activities?  
How are members notified that part of their dues is used for lobbying activities?  
What geographic area do you cover?  
Describe your history and activities.  
Describe your internal controls over your financial transactions.  
Do you have a budget?  
Is your 990-EZ shared with your governing body?  
How large is your governing body?  
Do you have an annual general meeting of the membership?  
Do you have an audit? If so, provide copies of reports.  
Who maintains the books?

## Appendix #12

Do you provide monthly financial reports? What is in them?

How are your officer stipends computed?

How do you report stipends (W-2, 1099-MISC, etc.)?

What are your sources of income?

How are your convention delegates chosen?

How many delegates do you have? What do they do? How long do they serve?

Do you have special events, if so, describe.

Do you give gifts? Describe.

What is the length of your contract with your employer?

Do you track your valuable assets, e.g. computers? Provide list.

## Appendix 13: Financial Assistance for Mediation, Fact-Finding and Arbitration

### 8 - FINANCIAL ASSISTANCE FOR MEDIATION, FACT-FINDING, AND ARBITRATION

**8.1** 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 if the local association has participated in an assessment of the merits of and alternatives to arbitration with IEA staff prior to filing the demand to arbitrate.

**8.2** 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 if the local association has participated in an assessment of the merits of and alternatives to arbitration with IEA staff prior to filing the demand to arbitrate. If legal counsel is used, the use and/or choice of legal counsel must be approved by the IEA-NEA to qualify for reimbursement under this section.

**8.3** 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 if the local association has participated in an assessment of the merits of and alternatives to arbitration with IEA staff prior to filing the demand to arbitrate. 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.