

SECTION ONE

FINANCIAL MANAGEMENT
FOR
STATE COUNCILS
AND
CHAPTERS

A Guide for
Treasurers'

LMRDA Compliance

A Guide for New Union Officers



Congratulations on becoming a union officer! You have been entrusted with many important duties and responsibilities. The Office of Labor-Management Standards (OLMS) of the U.S. Department of Labor has prepared this guide to help you properly carry out some of these duties. OLMS enforces certain provisions of the Labor-Management Reporting and Disclosure Act of 1959, as amended (LMRDA), which guarantees rights to union members and imposes responsibilities on union officers. The LMRDA establishes a bill of rights for union members; reporting requirements for unions, union officers, and union employees; standards for the election of union officers; and safeguards for protecting union funds and assets.

This guide includes general information regarding LMRDA requirements that apply to unions and union officers and offers suggestions on how to comply with these requirements. Although this guide is designed primarily for newly elected presidents and financial officers, it should be helpful to all new officers.

Unions Must File Annual Financial Reports

- ☐ The LMRDA requires unions to file financial reports annually with OLMS. Unions with annual receipts of \$200,000 or more (and those under trusteeship) must file Form LM-2. Unions with annual receipts less than \$200,000 may file the shorter Form LM-3, and unions with annual receipts less than \$10,000 may file Form LM-4. Annual financial reports must be signed by the president and treasurer or corresponding principal officers and are due within 90 days after the end of your union's fiscal year.
- ☐ Unions must make annual financial reports available to their members and permit members to examine supporting records for just cause.
- ☐ The reports and documents filed with OLMS are public information and any person may examine them or obtain copies from OLMS offices.

Suggestions

- When you take office, ensure that your union is up-to-date in filing Form LM-2, LM-3, or LM-4 annual financial reports, and that a copy of the last report is in your union's files.
- If your union is not up-to-date in filing its annual financial report, you are responsible for filing the required report immediately. If you need a copy of your union's most recently filed financial report or blank reporting forms and instructions, contact the nearest OLMS field office listed on page 4.
- In the last month of your union's fiscal year, OLMS will mail blank reporting forms and instructions to the address on your union's most recently filed form. Notify OLMS if your union changes its address so that your union will receive the forms in a timely manner.
- When completing your annual financial report, gather records well before the due date and review the instructions thoroughly to make sure that you complete the report properly. If you have any questions, call OLMS.
- Check your union's constitution and bylaws to review any other requirements regarding financial reporting. Also contact any former officers or your union's parent body to determine if your union is required to file reports with the IRS.

Unions Must Maintain Certain Records

- ☐ The LMRDA requires unions to maintain the records necessary to verify the reports filed with OLMS for at least five years after the reports are filed.
- ☐ As a general rule, all types of records used in the normal course of doing business must be maintained such as receipts and disbursements journals, cancelled checks, bank records, dues collection receipts, vendor receipts, credit card slips, meeting minutes, etc.

Suggestions

- If your union has an established recordkeeping system, review it thoroughly and, if necessary, check with prior officers on how records are maintained. Become familiar with the types of records your union maintains, including those needed to complete your annual financial report.
- Find out if your national or international union has any specific recordkeeping forms or requirements, including any handbooks or other guidance material.

Unions Must Safeguard Funds and Assets

- ☐ The LMRDA imposes a duty on union officers to manage the funds and property of the union solely for the benefit of the union in accordance with its constitution and bylaws.
- ☐ A union may not have loans to any officer or employee that in total exceed \$2,000 at any time.
- ☐ A union officer or employee who embezzles union funds or other assets commits a federal crime punishable by a fine and/or imprisonment.
- ☐ Individuals who have been convicted of certain crimes listed in the LMRDA may not hold union office or employment for up to 13 years after their conviction.

Suggestions

- Use a system of checks and balances to insure that one person is not solely responsible for all financial transactions. For example, require that two officers sign all checks and do not sign checks before the date, payee, and amount are entered.
- Review current practices for collecting dues and other receipts to insure that all receipts are recorded in union books and records, member dues are deposited in the bank on a timely basis, and deposits are properly recorded.
- Confirm that all expenditures are authorized in accordance with your union's constitution and bylaws and are properly recorded in membership/executive board minutes and union disbursement books and records.
- Remove any former officers' names from union bank accounts.
- Conduct an inventory of union assets to determine if they match prior inventory and union records of purchases and sales.
- Have trustees or an audit committee conduct periodic audits and report to the membership. The OLMS publication *Conducting Audits in Small Unions: A Guide for Trustees* is available from the nearest OLMS field office.
- If you discover a possible misuse of union funds, contact your national or international union or OLMS.

Unions Must Be Bonded

The LMRDA requires officers and employees of unions with property and annual receipts of more than \$5,000 to be bonded if they handle union funds or property. Handling funds is not limited to physical contact with money. For example, a person who has the authority to sign checks or redeem certificates of deposit is considered to be handling funds.

- ☐ The minimum bonding amount for each covered officer or employee is 10 percent of the funds handled by the official and his or her predecessor, if any, during the preceding fiscal year. For a new local union, the bond must be at least \$1,000.
- ☐ Bonding coverage required by the LMRDA is limited to protection against financial loss arising from fraudulent or dishonest acts, including larceny, theft, and embezzlement.
- ☐ The required bond must be obtained from a company on the U.S. Treasury Department list of approved bonding companies. The bond may not have a deductible since that is a form of prohibited self-insurance.

Suggestions

- If you are an officer of a newly formed union, contact your national or international union to see if it obtains bonding coverage for its locals. If not, obtain adequate bonding coverage.
- If you are a newly elected officer of an established union, determine if the amount of your union's bond is adequate. If not, increase coverage immediately.
- Confirm that your union's bond covers losses caused by fraud or dishonesty by each bonded person.

Unions Must Conduct Fair Elections of Officers

- ☐ Local unions must elect their officers by secret ballot at least every three years.
- ☐ Officer elections must be conducted in accordance with the provisions of your union's constitution and bylaws as long as they comply with the LMRDA.
- ☐ Every member in good standing has the right to nominate candidates, to be a candidate subject to reasonable qualifications uniformly imposed, and to support and vote for the candidates of the member's choice.
- ☐ Unions must mail a notice of election to every member at the member's last known home address at least 15 days prior to the election.
- ☐ Union and employer assets, including funds, equipment, and property, may not be used to promote the candidacy of any candidate. However, union funds may be used for reasonable expenses necessary to run an election.

Suggestions

- Review your union's constitution and bylaws well ahead of the scheduled election and determine your responsibilities and the time frames for conducting all aspects of nominations and the election.
- Update your union's membership mailing list regularly.
- Inform officers and employees of your union of the LMRDA prohibition against using union funds for campaign purposes, including campaigning on union time.
- Request a copy of *Conducting Local Union Officer Elections: A Guide for Election Officials* from the nearest OLMS field office for use by those who will be conducting the upcoming election.

Unions Must Allow Members to Exercise Their LMRDA Rights

- ☐ Union members have safeguards against improper discipline, equal rights to participate in union activities, freedom of speech and assembly with other members, and safeguards against improper dues increases.
 - ☐ Union members and non-member employees have the right to receive or inspect copies of collective bargaining agreements.
 - ☐ It is unlawful to use force or violence against union members who are exercising their rights under the LMRDA.
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OLMS Field Offices

If you would like additional information about the LMRDA or need assistance, please contact the nearest OLMS field office listed below. Information is also available on the Internet at:

http://www.dol.gov/dol/esa/public/olms_org.htm

Atlanta District Office
61 Forsyth Street, SW, Room 8B85
Atlanta, GA 30303
(404) 562-2083

Birmingham Resident Investigator Office
2031-F Canyon Road
Birmingham, AL 35216
(205) 731-0239

Boston District Office
JFK Federal Building, Room E-365
Boston, MA 02203
(617) 565-9880

Buffalo District Office
111 West Huron Street, Room 1310
Buffalo, NY 14202
(716) 551-4976

Chicago District Office
230 S Dearborn Street, Room 774
Chicago, IL 60604
(312) 596-7160

Cincinnati District Office
525 Vine Street, Room 950
Cincinnati, OH 45202
(513) 684-6840

Cleveland District Office
1240 East Ninth Street, Room 831
Cleveland, OH 44199
(216) 522-3855

Dallas District Office
525 Griffin Street, Room 300
Dallas, TX 75202
(214) 767-6834

Denver District Office
1999 Broadway, Room 2435, PO Box 46550
Denver, CO 80201
(720) 264-3231

Detroit District Office
211 West Fort Street, Room 1313
Detroit, MI 48226
(313) 226-6200

Grand Rapids Resident Investigator Office
2920 Fuller Avenue, NE, Room 104
Grand Rapids, MI 49505
(616) 456-2335

Honolulu Resident Investigator Office
300 Ala Moana Boulevard, Room 5-121
Honolulu, HI 96850
(808) 541-2705

Houston Resident Investigator Office
1919 Smith Street, Room 180
Houston, TX 77002
(713) 209-3135

Kansas City Resident Investigator Office
1100 Main Street, Room 950
Kansas City, MO 64105
(816) 426-2547

Los Angeles District Office
3660 Wilshire Boulevard, Room 708
Los Angeles, CA 90010
(213) 252-7508

Miami Resident Investigator Office
300 NE Third Avenue, Room 120
Fort Lauderdale, FL 33301
(954) 356-6850

Milwaukee District Office
517 E Wisconsin Avenue, Room 118
Milwaukee, WI 53202
(414) 297-1501

Minneapolis Resident Investigator Office
220 South Second Street, Room 100
Minneapolis, MN 55401
(612) 370-3111

Nashville District Office
233 Cumberland Bend Drive, Room 110
Nashville, TN 37228
(615) 736-5906

New Haven Resident Investigator Office
Two Whitney Avenue, Room 301
New Haven, CT 06510
(203) 773-2130

New Orleans District Office
701 Loyola Avenue, Room 13009
New Orleans, LA 70113
(504) 589-6174

New York District Office
201 Varick Street, Room 878
New York, NY 10014
(212) 337-2580

Newark Resident Investigator Office
190 Middlesex/Essex Turnpike, Room 204
Iselin, NJ 08830
(732) 750-5661

Philadelphia District Office
170 S Independence Mall West, Room 760 W
Philadelphia, PA 19106
(215) 861-4818

Pittsburgh District Office
1000 Liberty Avenue, Room 801
Pittsburgh, PA 15222
(412) 395-6925

Puerto Rico Resident Investigator Office
7 Tabanuco Street, Room 404
Guaynabo, PR 00968
(787) 277-1547

St. Louis District Office
1222 Spruce Street, Room 9 109E
St. Louis, MO 63103
(314) 539-2667

San Francisco District Office
71 Stevenson Street, Room 725
San Francisco, CA 94105
(415) 975-4020

Seattle District Office
1111 Third Avenue, Room 605
Seattle, WA 98101
(206) 553-5216

Tampa Resident Investigator Office
4950 W Kennedy Boulevard, Room 240
Tampa, FL 33609
(813) 288-1314

Washington District Office
1730 K Street, NW, Room 558
Washington, DC 20006
(202) 254-6510

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INTRODUCTION:

A key position in every ACT Chapter is that of the Chapter Treasurer. Financial Management for Chapters and State Councils: A Guide for the Chapter Treasurer is designed as a tool for the Chapter Treasurer. It provides important information and advice on typical Chapter Treasurer responsibilities. ACT chapters can use this guide in several ways:

- a. As a training tool for a new Chapter Treasurer
- b. As a refresher and reference for an existing Chapter Treasurer
- c. As a reference for making sure that the position description (if used) for the Chapter Treasurer is complete. This will ensure that no financial management tasks or issues are overlooked, which is important because poor financial management can be costly – even devastating to the entire chapter.

The Association of Civilian Technicians Inc, located in Lake Ridge, VA, wishes to extend its sincere thanks to each Chapter Treasurer. You have undertaken a position of responsibility and one that insures the proper control over monies for your fellow technicians in your ACT chapter.

National ACT's stated mission is:

The mission of the Association of Civilian Technicians as a nonprofit organization operating within the Department of Defense, specifically, the National Guard Bureau, to represent National Guard Technicians by organizing them to work together to ensure that every civilian technician is treated with dignity and respect in the performance of their duties. We do this through outstanding labor representation. ACT is dedicated to serving only Guard and Reserve Technicians. ACT maintains and promotes the standard for labor relations of National Guard Civilian Technicians. ACT is also dedicated to promoting legislation designed to meet the need of the National Guard Civilian Technician.

Please always keep in mind that all of the staff at the Association's National Office and its Field Representatives are there to assist you. **Without you – we would not be here....**

DUTIES OF THE TREASURER:

Large or small, a chapter of ACT must maintain accurate financial records, follow solid internal control procedures, be fully informed on current chapter status, and comply with government regulations. All remunerated funds must be deposited promptly, and payments must be made only after proper authorization and approval.

Beyond these basic "bookkeeping" requirements, however, lies an array of financial concerns for the chapter. A strong Chapter Treasurer approaches these concerns by:

- Submitting periodic financial reports in a useful format to chapter leaders, members, National Officers and auditors when required.
- Using current and historical information to budget well and to point out potential trouble spots in time to make adjustments.
- Directing the Board's attention to long-term and short-term trends, which may affect the chapter's membership and financial position.
- Encouraging all chapter leaders to share in the responsibility of managing the chapter's finances.
- Reviewing current banking, vendor, and investment relationships to ensure the best use of chapter funds.
- Keeping safety and liquidity factors in mind when investing chapter assets.
- Keeping informed on current federal and state regulations concerning exempt status, tax liability (if any), filing compliance and postage benefits as a non-profit organization.
- Working closely with the outgoing Chapter Treasurer and with the successor Chapter Treasurer to achieve a seamless transition between terms of office.
- Maintaining a balance between expenditures that are for the perpetuation and enhancement of the chapter and expenditures that meet members' current needs.
- Always remembering that the chapter is the custodian of its members' money and must be prudent in managing it.

ANALYSIS OF THE CHAPTER'S FINANCIAL CONDITION:

The Treasurer is a member of the team that manages the assets of the chapter. Armed with current and accurate financial records and a thorough knowledge of ACT's Chapter Operating Requirement, the Chapter Treasurer works with the President, the Board and other officers to ensure the chapter's financial health and legal responsibilities.

The discussion of budgeting process, which follows this section, will address some trends and events that could affect revenue and expense projections for the upcoming budget year. In addition, the following factors should be constantly analyzed for their effect of the current and future year's performance.

- a. Trends in membership growth (up or down)
- b. Changes in attendance at monthly or quarterly meetings
- c. Unanticipated expenses
- d. Unanticipated increases in administrative and other expenses
- e. Recruiting efforts by the chapter officers

The chapter's activities should be analyzed to distinguish between good performers with a high degree of recruitment of new members versus those officers and members that do little or nothing to promote the goals of ACT and your chapter. In other words, expenditures must be for all members and poor performance cannot justify expenditures for just a select few. Capitalize on the good recruiters and workers for your chapter and reward them.

THE BASICS OF A SOUND FINANCIAL MANAGEMENT SYSTEM:

The Six-Step Budgeting Process:

The budget is the financial presentation of the chapter's goals and objectives. Members pay dues in exchange for services in the form of Labor Management Representation from the chapter. The budgeting process addresses the financial implication of dues and other revenue received and services returned to the membership.

- What does the chapter provide its members?
- How much do these services cost?
- How much revenue comes from dues and how much from other sources?
- What are administrative costs (those expenses such as phone, internet access which are not directly connected with a specific program)?

There are six steps to the budgeting process:

1. Assess the chapter's current financial position and look at the chapter's goals.
2. Identify chapter programs and services.
3. Estimate expense for each program for the coming year.
4. Identify all administrative costs of running the chapter.

5. Prepare budget worksheets for each program and administrative area.
6. Compile all program and administrative budgets into an overall annual budget.

Step One

Assess the chapter's current financial position and look at the chapter's goals.

- Where is the chapter now, and where is it planning to be?
- Is the chapter building a budget that reflects members' needs each year?
- Is the chapter operating on a sound financial basis, or are cash balances dangerously low?
- Is the chapter run like a business?
- Is the chapter following its state and federal financial reporting obligations?
- Were the chapters' financial records reviewed or audited last year?

Step Two

Identify chapter programs and services.

You need to make sure that the final chapter budget encompasses all activities for the coming year. Before you begin pulling numbers together, conduct an inventory of all current and future chapter programs, services and activities, so that you can be sure that all of them will be covered in the annual budget.

In performing this inventory, the Chapter Treasurer and other officers will ask themselves two key questions:

- When members join the chapter today, what do they get?
- Do we anticipate adding any new services or training in the coming year?

Step Three

Estimate expenses for each program area for the coming year.

- How much does it cost the chapter to service members?
- What trends and events may affect expense projections? (i.e. arbitrations, hearings, etc.)
- Studying several years of LM reports, check ledgers and financial reports can help identify the type and size of expenses to expect, plus point out cost items that might not come to mind immediately.
- Services such as word processing, typing and copying may have been donated to the chapter. You should assign a realistic value and footnote that it is being provided for free.

- Factor in any increases in postage, telephone and printing costs.
- Factor in any cost increase for a newsletter.

Step Four

Identify all the administrative costs of running the chapter.

- There will be general administrative expenses such as insurance, secretarial support when needed, legal fees, and telephone.
- There may also be some revenue associated with the administration of the chapter such as interest income on savings, CD's, or money market accounts. The Chapter Treasurer is usually responsible for administrative expenses and revenues.

Step Five

Prepare budget worksheets for each program and administrative area.

- Once steps three, four, and five have been completed, officers can prepare a budget worksheet for each item. By accepting the budgeting responsibility for a specific program, each officer or chairperson accepts accountability for that program. This process helps establish the strong teamwork approach that characterizes a well-run ACT chapter.
- The budget worksheet shows the months in which dues will be received and expenses disbursed. In some cases, the timing of revenue and expenses can be predicted quite accurately, but in other cases it is most logical to spread the annual budget equally over the twelve months.
- The information from these worksheets will be incorporated into the total chapter budget.

Step Six

Complete all program and administrative budgets into an overall annual chapter budget. Using the chapter's projected revenue and projected expenses, create a matrix showing the amount and timing of all the chapter's financial activity.

- How much revenue is anticipated and when will the funds be received?
- How much spending is anticipated and when will the funds be disbursed?
- What is the chapter's anticipated cash position at any particular time?

Perform the following checks to finalize the budget.

- Does every program have a budget?
- Is there a budget for administrative expenses and any related revenue?

- Have you verified the accuracy of revenue, expenses, and net figures on each budget worksheet?

- Does the total revenue, expenses, and net figures on the annual budget include all the information from all the budget worksheets?

- Is the beginning cash balance equal to the sum of the anticipated balances in all bank accounts?

- Have you allowed for any prior year expenses, which may not be billed until next year and will therefore use cash in the next year?

- Is there a substantial difference between this year's budget and last year's (either in revenue, expenses or both)? If programs and activities have not changed greatly, then the budget should be very close to the prior year's budget.

The budget, once approved by the Board of Directors, becomes the fixed base against which financial performance is analyzed during the year.

The budget does not change. When variances in revenue and expenses occur during the year, they will be measured against the approved budget.

One of the Chapter Treasurer's primary responsibilities is to alert the chapter leadership to the financial implication of unanticipated changes in revenue and expenses, so those adjustments can be made in a timely manner.

RECORD KEEPING, CONTROL, AND REPORTING:

Accurate, timely, and complete records are the essence of a sound financial system.

The Chapter Treasurer's responsibilities include keeping all cash, investments, audit, and other financial records for easy access and for efficient transferability to the successor Chapter Treasurer.

Under no circumstances are chapter funds ever to be commingled with any member's personal or company account. A separate checking account must be set up to handle chapter funds.

Records Retention:

The size of the chapter determines the physical storage needs for the chapter records. Each chapter should keep an inventory of all records and their location. An example of an entry in such an inventory might be "Accounts Payable. 1988-1999, off-site storage." The inventory should be updated as part of the transition process and passed on to the successor Chapter Treasurer. Here is a general guide for retaining records:

Accounts Receivable Spreadsheets and Bank Statements – Five Years

Accounts Payable Spreadsheets and Checks – Five Years

Annual Financial Statements and Audits – Permanently

Tax Returns – Five Years

Payroll Records – Five Years

Organization Documents (Chapters Bylaws, etc) – Permanently

Membership Records – Five Years

Supporting Documentation (such as paid invoices and receipts) – Five Years

Insurance Policies – Five Years

Of course, if the chapter is in litigation or under threat of a Department of Labor, IRS or state tax audit, records will not be discarded until the investigation or litigation is concluded.

The most common types of records that the Chapter Treasurer prepares are the Accounts Payable (money paid out by the chapter) and Accounts Receivable (money paid to the chapter). Each must be kept current and must summarize cash information on a monthly basis. These records are used to summarize activity by program and service area and are used in preparation of periodic financial reports to the leadership. They are also used in reconciling all bank statements on a monthly basis. The accounts are usually best managed with appropriate computer software. It can be a simple spreadsheet program or a refined financial management program; whichever meets the needs of your chapter. Keep in mind, however, that you will need to be able to transfer all this information to the successor Chapter Treasurer, who may have different software capabilities and computer skills. The chapter may wish to establish rules and guidelines for use of financial management and tracking software. In any case, it is imperative that paper copies of all monthly journals and reports are passed on to the successor to help ensure a smooth transition.

If a computer is unavailable, the Chapter Treasurer may also set up the accounts on standard columnar paper and track them manually. All columns should be totaled at the end of the month on a monthly and year-to-date basis. On a monthly or quarterly basis, and at year-end, totals are transferred to a "Statement of Revenue, Expense, and Changes in Cash Balance" for reporting purposes.

Accounts Payable:

It is important that the chapter establish approval and authorization procedures for writing checks. The Chapter Treasurer, who draws the checks, should not have all the authority to approve expenditures based on his/her signature alone. These control procedures should address:

- What backup documentation (expense reports, bills etc.) is required?
- What approval is required for each type of expenditure and in each budget area?
- In what circumstances is more than one approval necessary? Usually there are three:
 1. Over a certain dollar amount.
 2. For items that were not budgeted.
 3. When the variance from budget exceeds certain limits.

- At what dollar amount are two signatures required on checks?
- How frequently will checks be drawn?

No checks should be drawn without proper authorization and approval, in accordance with the published procedures for cash disbursements. With the annual transition of officers, the chapter must file new signature cards with the bank. The chapter's bank service officer can assist with the necessary arrangements. Cut-off dates for bank statements should be the last day of the month rather than during the month. This eases the reconciliation and audit process. Every check, bank service charge, and other reduction in cash are recorded in the Accounts Payable Spreadsheet. Each entry represents a decrease in cash, with a simultaneous increase in expense in one or more program or service areas.

Accounts Receivable:

Every bank deposit during the year is recorded in the Accounts Receivable Spreadsheet. The total deposit represents an increase in cash. The deposit is simultaneously recorded as revenue in the appropriate program or service area. Deposits must be made immediately when the money is received from ACT National. It is an unacceptable financial management practice to hold funds any longer than three days before depositing them. If the bank's location is inconvenient to the Chapter Treasurer, he or she should arrange to conduct banking transactions by direct deposit. For further assistance, contact the National Office Bookkeeper.

Each deposit must have backup information, which the Chapter Treasurer prepares and/or consolidates:

- A dated duplicate deposit ticket, listing each check (payer, check number, and amount).
- Check stubs, payment copies of invoices, or other paperwork that will identify the sources, amount and purpose of each payment received.

Statement of Revenue, Expenses, and Changes in Cash Balance:

The Chapter Treasurer reports periodically to the Board and other interested parties (National Field Representative, DOL, or ACT National Treasurer) on the financial condition of the chapter. The reports are as of a certain date.

The reports should highlight areas in which revenue or expenses vary significantly from the budget.

These statements can be as complex as the Board desires, with percentage variances, projections, and subsidiary statements by a program or service area.

At a minimum, the statements must contain the following information:

- Name of the Chapter
- Title of the Statement (i.e. – Statement of Revenue, Changes in Cash Balance)
- Time period covered

- Cash balances at the beginning of the fiscal year
- Revenue (listed by program and service area)
- Expenses (listed by program and service area)
- Cash balances as of the date of the statement

Always, the beginning cash balance plus total revenue received in cash, less total expenses paid in cash, must equal the ending cash balance. In other words....

(Beginning Cash Balance) + (Total Cash Revenue) – (Total Cash Expenses) = (Ending Cash Balance)

Having verified the beginning balances from the prior year-end reports, and having used the Accounts Receivable and Accounts Payable Spreadsheets to reconcile the bank accounts, the ending cash balance on the statement will equal the reconciled cash balance on the monthly bank account statement.

Balance Sheet:

The balance sheet presents the chapter's assets, liabilities, and fund balance at a specific point in time. Fund balance is simply assets minus liabilities and reflects the cumulative financial activity of the chapter since its inception. Total assets always equal the sum of the total liabilities plus the fund balance. Most chapters use the cash basis of accounting. Accounting on the cash basis means that the financial statements reflect revenue when it is received (deposited in the bank) and expenses when they are paid (when checks are drawn).

It follows, of course, that the accuracy of the chapter's financial picture depends on collecting and depositing funds immediately and on drawing checks in payment of expenses as soon as bills or expense vouchers are received.

Smaller Association of Civilian Technician chapters often have cash as the only asset. In that case, the fund balance at any one time will equal the cash balance. For these chapters with no other assets, the Statement of Revenue, Expenses, and Changes in Cash Balance is the only statement required, since the ending Cash Balance is identical to the Fund Balance.

Some larger chapters may have purchased furniture and equipment (such as desks and computers) or may have money in stocks, bonds, and/or other investment vehicles. For these chapters, a conventional balance sheet should be prepared. The balance sheet is always presented as of a certain date (unlike the Statement of Revenue, Expenses, and Changes in Cash Balance, which reflects activity for a certain period). There are three major divisions: assets, liabilities, and fund balances.

- Assets are either current (cash or readily converted in cash, or accounts receivable that are due within one year) or fixed (furniture and equipment, less accumulated depreciation to date).
- Liabilities are either current (due to be paid out within the year) or long-term (due to be paid out one year or longer in the future).

- The ending fund balance is always the fund balance at the beginning of the year plus the net excess of revenue over expenses since the beginning of the year.

All the reports and supporting records discussed above – Accounts Payable Spreadsheet, Accounts Receivable Spreadsheet, Statement of Revenue Expenses, Changes in Fund Balance, and Balance Sheet – are intricately related. Remember, accurate record keeping is essential to accurate financial reporting.

CASH MANAGEMENT:

Cash management covers several areas: deposit and check writing procedures, banking relationships, and attention to the flow of cash.

Deposit and Check Writing Procedures:

Deposit and check writing procedures are addressed above in the sections on Accounts Receivable and Accounts Payable.

Banking Relationships:

This area encompasses all the chapter's accounts at banks, savings and loan institutions, and investment houses. It is advisable to deal directly with the account executive that handles the chapter's account in order to establish a personal relationship with him or her. One of the first transition activities will be to update each account with new signature cards. This is an excellent opportunity for the Chapter Treasurer to get to know the banker. Banks are competitive. The chapter officers may feel that the chapter is not receiving the service it deserves or that fees are too high or interest too low. Shopping around for better deals, either with the current bank or with other banks, may be advisable. The chapter deserves the best balance of safety, convenience and economy.

Cash Flow:

The Chapter Treasurer should always be aware of the chapter's current cash situation. If the cash balance is high or low in comparison to the same time last year or to year-end, what has caused the shift?

- Is it due to the timing of dues receipts?
- Has a one-time large bill (such as Insurance or Travel) just been paid?

Cash management in the context of watching the flow of funds involves:

- Noting the current cash situation.
- Analyzing the revenue and expenses that are due in the future.
- Adjusting as necessary.

-Perhaps there are excess funds to invest for a limited period of time at a higher rate.

-Perhaps some budgeted expenses need to be postponed until the cash position improves.

-Perhaps the chapter's cash balance is in danger of getting below an acceptable level and so arrangements with vendors for time payments (of a computer or office furniture, for an example) may be negotiated. In any case, the Chapter Treasurer has the raw data to recommend steps that will most efficiently manage the members' money.

ADDITIONAL REPORTING PROCEDURES:

In addition to the financial statements discussed on previous pages, the Chapter Treasurer prepares reports that show:

- Variances in revenue and expenses between actual and budget.
- Projected revenue and expense based on year to date information.
- Trends and their long-term effects.

Any variances that exceed five percent of projected and budgeted revenue or expense should be brought to the Board's attention along with notes explaining the variances. At the Board's discretion, any financial statements or records can be presented to the members. They may be part of the Chapter Treasurer's report at a membership meeting, published in the chapter newsletter, or presented in another way that is appropriate and convenient for the chapter.

In addition, the year-end Statement of Revenue, Expenses and Changes in Cash Balance should be presented to the entire membership as part of the chapter's Annual Report.

It is also the Chapter Treasurer's responsibility to prepare state and federal financial reports, as required by law. See section on Federal and State Tax Responsibilities.

THE REVIEW OR AUDIT PROCESS:

Purpose:

The review/audit is the examination and verification of the chapter's books and financial records and is concerned with two objectives. The detailed information on procedures are included in this booklet.

- The review process is designed to verify that established policies, procedures, and internal controls are being followed in the daily operations and that the chapter accounting records and financial statements are accurate and complete.

When:

In order to comply with the Association of Civilian Technicians' Operating Constitution and Bylaws, all chapters should observe the following schedule.

- Conduct an internal review of financial records every year.

- Conduct an external review or audit of financial records at least every two years. (Either the National Treasurer, National Vice Presidents' or the National Field Representative assigned to your area can perform external audits).

Reviews and audits should be performed when the year's financial statements are complete. However, if there is any evidence of wrongdoing, the Chapter Treasurer or anyone else who has access to the books should request an audit by an outside source be performed at the time the wrongdoing is first suspected.

Who:

The chapter should hire a certified public accountant to conduct an external audit and review in questionable or suspicious situations. In an audit, the CPA audits the books in accordance with generally accepted auditing standards and issues an opinion on the financial statements. In a less thorough review, the CPA offers assurance to the Board and members that the books are complete and are being kept in accordance with sound financial policy. The aforementioned actions are costly but may be necessary if suspicious statements or financial accounting methods cannot be documented. (Prior to conducting an external audit with a CPA, please notify the National Treasurer for assistance in your difficulty). The annual internal review can be conducted by an internal audit committee, composed of two or three members, who examine the books at year-end for completeness and accuracy.

How:

A checklist of tasks to be completed during the audit is called the "audit program." It is completed during the audit and becomes a permanent part of the audit documentation. The auditor(s) examine the financial records, bank statements, budgets, and board minutes to satisfy themselves that chapter procedures are being followed. They will make note of the records they have reviewed and will make any comments on related procedural matters, as they deem necessary. Upon completion of the audit, the auditor(s) issues a report expressing an overall opinion on the accuracy of the chapter's financial statements. If the auditor(s) has any recommendations for adjustments in the record keeping and financial reporting processes, these are also given in the statement.

FEDERAL AND STATE TAX REPORTING:

Tax Exempt Status:

The 501(c)(5) Designation

The advantages of a 501(c)(5) organization are that federal income taxes do not have to be paid on related business income, and contributions made to the organization are tax deductible by the donor.

ACT and its chapters are classified as 501(c)(5) organizations. This designation identifies them as organizations operating for the benefit of Reserve and National Guard Technicians

A 501(c)(5) organization is exempt from federal tax on income related to their exempt purpose (membership dues, investments, and any publication sales). Contributions made to 501(c)(5) organizations are considered an expense connected with your job and therefore qualifies as a tax deduction. This offers ACT a broader base for receiving grants, gifts, and donations.

Be aware, however, that exemption from federal income taxes does not automatically constitute exemption from state and local taxes. State and local tax laws and regulations vary according to state and locality. If the Chapter Treasurer is unsure of the chapter's state and local tax status, he or she should contact the local and state directors of finance or taxation.

Federal Identification Number:

If the chapter has not previously been assigned its Federal Identification Number (the Employer Identification Number or EIN), the National ACT can assist them in applying for one. This should be done in a letter addressed to ACT National Headquarters, Attn: National Treasurer or Bookkeeper at: Association of Civilian Technicians, 12620 Lake Ridge Drive, Lake Ridge, VA. 22192. All chapters filing for their EIN number should use the chapter's official mailing address. Do not use a personal address when applying for your EIN. If you do not have a post office address or business address for your chapter, then you may use ACT National's address and, as your EIN paperwork comes in, it will be forwarded to you. Always ensure that ACT National office has a copy of your EIN number.

So that chapters don't have to seek separate IRS recognition as a tax-exempt organization, ACT has applied to the IRS for a group exemption letter and each chapter must annually decide whether or not to be included in our group exemption. Chapters that are included in the group exemption can enjoy the benefits of 501(c)(5) status as a tax-exempt organization. A copy of the Group Exemption Letter issued by the IRS will be sent to each chapter joining in the group exemption. Your chapter can be granted 501(c)(5) status by virtue of your participation in the Group Exemption, thereby avoiding the time, expense, and necessity of individually filing for exemptions.

If a chapter's statement of purpose or mission statement (including bylaws) is consistent with ACT's and if it requests to be included, it may be made a part of the Group Exemption. **Each ACT chapter is strongly encouraged to participate in ACT's Group Exemption!**

In order to be included in the Group Exemption letter, a chapter must write to ACT. The request should be on the chapter's letterhead stationary and must include the following:

- A statement requesting the chapter's inclusion in ACT National's Group Exemption.
- The federal identification number or a request for assistance in obtaining an EIN number.

ACT updates the Group Exemption on an annual basis, adding any chapters that have requested inclusion since the last update. ACT maintains a current list of chapters participating under the Group Exemption Letter. It includes each subordinate's name, federal ID number, and filing status. These records are updated as new chapters are added to the Group Exemption. If there are any questions related to inclusion in the Group Exemption, the Chapter Treasurer may contact either the ACT National Treasurer or the Bookkeeper at the National Office.

U.S. DOL Labor Management Reports:

All Chapters/State Councils are required by law to file an annual Labor Management (LM) report with the U.S. Department of Labor. This report must be filed within three months after fiscal year ending. (All ACT Chapter/State Councils must use December 31st as the end of their fiscal year).

A copy of your LM report must be submitted to the National Office in Lake Ridge, VA no later than January 31st immediately following your fiscal year end.

IRS Forms 990 and 990EZ:

Being exempt from paying taxes does not equate with being excused from filing tax returns. Nonprofit organizations, however, do not have to file a return if gross receipts (i.e., total revenue received during the year) are normally less than \$25,000.

"Normally" is usually defined by the activity of the prior three years. If receipts in two of the prior three years have been less than \$25,000 then no filing is required. However, if gross receipts in only one of the prior three years have been less than \$25,000 (regardless of what the current year's outlook is) then the chapter will be required to file.

IRS Form 990 is the tax return used by nonprofit organizations. It must be submitted by the 15th day of the fifth month following the close of the fiscal year. Our ACT Fiscal year is from January 1 through December 31. Penalties for filing late are up to \$20.00 per day, up to a maximum of \$10,000.

ACT Chapters are under the "general supervision" of ACT; in conformance with ACT's mission as a non-profit tax-exempt federal union. Beyond that, however, the chapters are autonomous entities. As such, they are responsible for maintaining their records and complying with all applicable federal, state and local laws and regulations, including tax laws. An IRS regulation requires public disclosure of certain material relating to tax-exempt organizations, including IRS Form 990s:

<http://990online.com/fr-doc-99-8638.html>

All ACT chapters are required to independently determine whether or not they must file federal and state tax returns and are responsible for filing them in a timely manner. This requirement is also the same for the appropriate Labor Management Reporting Document (LM Form) for the Department of Labor.

UNRELATED BUSINESS INCOME TAX:

If an exempt organization engages in income-producing activities not substantially related to its exempt purpose, it may be liable for tax on its Unrelated Business Income (UBI).

UBI is income from an unrelated business regularly carried on. The mere fact that an activity provided funds for the exempt purposes of the organization does not make it exempt. For example, if ACT National sells advertising in its newspaper, it will have UBI even though the funds received help the organization achieve its exempt purposes. The IRS defines UBI-producing activities as those that:

- Are a trade or business
- Are regularly carried on by the organization, and
- Are not substantially related to the organization's exempt purpose, aside from the need of the organization for the profits derived from it.

However, there are some powerful exceptions and exclusions to UBI that will probably keep most of the fundraising activities of ACT Chapters out of the UBI category, the following are some of these exclusions:

1. If labor is a material income-producing factor in the activity, and at least 85% of the labor is done by volunteers.
2. If income is from sale of merchandise and 85% is donated to the organization.
3. If the activity is not "regularly carried on" (The IRS states once a year is not regularly carried on).
4. Investment income, such as interest and dividends.
5. Royalties and (generally) rental income from real estate.
6. There is an automatic exclusion for the first \$1,000 of net UBI.

As a result of these exceptions and exclusions, most chapters do not engage in activities producing unrelated business income to the extent that reporting and paying taxes on them is necessary. If the chapter has questions about such activity, it would be wise to contact an accountant concerning the matter.

IRS Form 990T:

A nonprofit organization with a gross UBI of \$1,000 or more must file IRS Form 990T (even if net UBI is a loss). The form is due to the IRS four and a half months after the end of the year, with a six-month extension available. (This is the same schedule as Form 990). ACT National does not file 990T for chapters. No tax is due if the chapter's UBI is less than \$10,000. Chapters with UBI greater than \$10,000 will be taxed at the same rate as corporations (15 – 39 % tax brackets), and estimated payments are required. Finally, all expenses related to the UBI can be deducted in calculating the chapter's net taxable income.

STATE TAXES:

Every State has different tax filing and reporting requirements. It is up to the chapter to identify and follow through on these requirements. ACT does not have information on the rules and regulations for each state and jurisdiction.

Please contact your State Tax Agency or your Secretary of State to obtain information on your responsibility for taxes.

STATE SALES TAX:

Payment:

Generally, organizations are required to pay state sales tax on all purchases or taxable merchandise in that state. However, most states grant exemptions to charitable organizations. This exemption is generally not automatic; you must apply for it.

If exemption is granted, then the chapter will receive an exemption certificate that can be presented to vendors when making purchases. The vendor will then not charge tax on the purchase. Please note that this exemption certificate only provides an exemption from paying sales tax – not from collecting it on merchandise sold by the chapter.

Collection:

Most states require all organizations, including charities, to collect sales tax on sales of merchandise, including donated merchandise. Some states exclude certain merchandise from sales tax (e.g. certain education publications). This varies greatly from state to state. All chapters that sell merchandise must register with their state to collect sales tax. The chapter then remits the tax it has collected with some form of sales tax reporting form, generally on a monthly or quarterly basis. Out-of-state mail order sales are exempted from sales tax.

For information on either payment or collection of sales tax in a particular state, the State Department of Taxation or Revenue should be able to refer you to its sales tax office.

PAYROLL TAXES:

If a chapter employs any person on a regular, continuous basis, it may be liable for withholding and reporting payroll taxes. IRS Circular E, available from a local IRS office, gives complete instruction on how to determine if you are an employer, and what procedures and forms to follow for reporting wages and withholding federal taxes. The Department of Taxation in your state will be able to provide a similar publication for state wages.

LIABILITY AND INDEMNIFICATION:

Prudent fiscal management of a chapter dictates that the chapter and its officers and directors be insured both against potential litigation and against losses from theft and damage. This is a complicated area, with wide variations in state laws. This section provides some general information that should apply to all ACT chapters.

Bonding Of Chapter Employees:

ACT provides a Blanket Employee Dishonesty Bond in the amount of \$10,000 per occurrence. This bond covers all employees of ACT and its chapter officers. The endorsement to the policy states: Employee as defined... shall also be "deemed to include any duly elected or appointed officer of the Insured whether or not compensated, while servicing in such capacity during the Bond Period." ACT, who pays the premium for itself and all its chapters, automatically renews the bond annually.

Volunteer Protection Act Of 1997, Public Law 105-19 (June 18, 1997):

The Volunteer Protection Act passed by the United States Congress in 1997 relieves a volunteer of a nonprofit organization of liability for harm caused by an act or omission if:

- The volunteer was acting within the scope of his or her volunteer responsibilities.
- If required, the volunteer was properly licensed or certified to practice in the state where the harm occurred.
- Harm was not caused by willful or criminal misconduct, gross negligence, reckless misconduct, or flagrant indifference to the rights or safety of the person harmed by the volunteer.
- Harm was not caused by the volunteer's operation of a motor vehicle, vessel, aircraft, and etc, for which the state requires a license.
- Harm was not caused by a volunteer's misconduct that constitutes a crime of violence, constitutes a hate crime, involves a sexual offense, or violates civil rights laws, or that occurred when the volunteer was under the influence of intoxicating alcohol or any drug.

The Act preempts inconsistent state law, except when those laws provide additional protection. Most experts say this Act is a good first step, but that it does not go far enough in eliminating the myriad of conditions and exceptions regarding volunteer liability. Chapter officers should be aware of certain things that the Volunteer Protection Act does not do:

- It does not protect the organization itself from liability for its acts or act of its volunteers.
- It does not protect the volunteer from being sued by the organization itself.
- It does not eliminate the need for general liability and director and officer ("D & O") insurance policies, although it may have the effect of lowering the premiums.

General Liability Insurance:

The importance of being adequately insured cannot be overstated... Insurance offers protection against damage, accidents, and lawsuits. Each chapter must obtain general liability insurance for itself. ACT does not provide this coverage. Some types of coverage you may consider are:

- Comprehensive general liability
- Host liquor liability
- Non-owned and hired auto
- Others that may be specific to the chapter's needs

Since insurance regulations vary from location to location, each chapter will need to determine what coverage will afford it the most protection within its jurisdiction. When choosing an insurance policy, consider the following criteria:

- Types of coverage needed (as indicated above)
- Applicable state and local laws
- Number of chapter members
- Size of events to be covered

Directors And Officers Liability Insurance:

ACT chapters operate autonomously and under the "general supervision" of ACT. Because of this loose relationship, ACT is not responsible for the debts of the chapters and cannot be responsible for the indemnification of chapter directors and officers.

Chapter officers should address the question of how they wish to secure themselves against the risks associated with managing the chapter. If indemnification is warranted, it may be provided through insurance, through the reserve funds, or through current operating income. If a chapter has employees, it may wish to inquire about "employment practices coverage." The chapter's insurance agent, counsel, and accountant are sources of advice on this matter.

This concludes the Treasurer's Guide and, knowing we have briefly touched on many areas that may require further answers, we encourage you to contact ACT with your questions.

On behalf of the staff of The Association of Civilian Technicians – Thank you.