March 2011

Dear Treasurer / State Business Manager:

We are pleased to forward you the 2011 edition of “The Treasurer’s Handbook”. It is our hope that this will form the basis for your manual to be distributed to each local.

The Handbook includes a wealth of information and detail with special emphasis on internal controls, internal audit committees and fiduciary responsibilities. Much is applicable to all locals. Feel free to modify this document by addition or deletion to best meet the needs of the local(s) receiving this document. The material should also prove to be a useful resource for your state needs.

Although NEA and many state affiliates have developed a strategic plan and budget, most locals utilize the more basic line item approach. Therefore the budget segment may not be relevant to all locals.

An extensive financial reporting system exists at both NEA and most state affiliates. Again, the more simplified “QuickBooks” accounting software is set forth as one method currently utilized by many locals.

The salient point is to develop a structure for the financial activities of the local to be properly addressed.

The NEA Financial and Membership Services department is ready to assist you and/or your financial personnel with customization of this document and serve as a resource for providing assistance in response to issues, questions and/or concerns in this regard.

Sincerely,

Bill Thompson
NEA Financial and Membership Services
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The purpose of this handbook is to help you develop sound financial policies with good bookkeeping procedures. The information presented is not intended to be all-encompassing. It has been written by treasurers for treasurers and local leaders and incorporates ideas and procedures they have found to be successful. In addition to this handbook, we offer online local treasurers training via the NEA Academy. (Refer to the Appendix for additional information)

The duties of a treasurer are at least fourfold: 1) to operate a sound financial operation including tax and other regulatory reporting; 2) to be able to explain the use of all money; 3) to justify the dues and the budget; and 4) to provide effective leadership to your association. This handbook will be concentrating on the first two of these duties. It has been noted that if the first two are achieved, the second two follow naturally.

Accountability is essential for your association because your association is accountable to a number of constituencies. Your association is responsible to its members. Having a tax-exempt status carries a much broader responsibility. Because of this broad population of stakeholders, and because your association depends heavily on dues from members, it is vital that your financial affairs be conducted above reproach. The relationship between your association, its members, and the community as a whole is a relationship based on trust. Once that trust is lost, it is difficult, if not impossible to regain. **Financial mismanagement can destroy your greatest asset, the reputation of a not-for-profit association.** In an environment in which confidence in many institutions is eroding, your association must clearly demonstrate the best financial practices.

**Fiduciary Duties of all Officers and Employees**
(Refer to Appendix for “Sample Year of the Treasurer”)

- Safeguard the assets of the association.
- Ensure the resources of the association are utilized to the maximum benefit of the members.

**Responsibilities of the Treasurer**

- Act for the good of the association and exercise reasonable care in all decision-making.
- Understand basic financial terminology.
- Maintain complete, accurate and timely financial records.
- On a monthly basis, present complete and meaningful financial reports to the Directors and members of the association for their review and approval.
- Comply with federal, state and local reporting requirements including tax filings and political expenditure reports.
- Collect membership dues and transmit State and National dues in accordance with association bylaws and dues transmittal agreements.
- Compare the actual income and expenses of the association with the approved budget. Note any variances and recommend budget adjustments as necessary.
- Coordinate and assist with an annual financial audit or review of the association funds.
- Assist in the Assessment, Measurement and Evaluation of association programs and projects if applicable.
Monitor the cash flow and cash needs of the association to maximize investment income and minimize borrowing.

**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 the 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?
Conflict of Interest Policy

Conflict of Interest is difficult to define. Most conflicts fall into a gray area where ethics and public perception are more relevant than statutes or precedents. Conflict of interest arises whenever the personal or professional interests of a member are potentially at odds with the best interests of the association. For example, a member may propose that a relative or friend be considered for a staff position. Such a transaction is perfectly acceptable if it benefits the association and if the decision is made in an objective and informed manner. However, even if it does meet these standards, it may still be vulnerable to legal challenges and public misunderstandings.

Code of Ethics

Definition - A set of principles of appropriate conduct, a theory or a system of moral values, the rules or standards governing the conduct of a person or the members of a profession.

An official Code of Ethics policy, formally approved by the Board of Directors, is recommended.

Incorporation

Since many local associations are experiencing “growing pains,” this is a time for many local associations to consider the possibility of incorporation. This may be a viable alternative for locals, especially those that own or are considering purchasing property in the local association’s name. **Articles of Incorporation are required by the laws of most states for incorporation as a not-for-profit association.**

While on paper the prospect of incorporation appears to be a complicated and confusing task, in essence it is really fairly simple. However, it is recommended to consult with a local attorney upon incorporation of the local association. Incorporating may require additional paperwork upon its conception but, in the long run, may prove to require less paperwork than an unincorporated association.

Some of the pros and cons of incorporation are explained below:

Pros:

- The association becomes a legal entity, in its own name, separate and distinct from its members and may acquire, hold and dispose of real and personal property.
- Creditors must look to assets of the association for payment of claims rather than to individual members.
- Dues, being a contractual obligation to the extent that they are unpaid, are included in the assets of the corporation, which is the extent of the members’ liability.
- The association may sue and be sued in its own name, and institute or defend suits for enforcement of federal rights and liabilities.
- There is stability and protection of the association’s name that results from using the corporate form of organization.
- The corporate form of organization would tend to increase the prospects of continuation and survival in the event of internal disturbance or extreme financial stress.

Cons:

- The association should take into consideration the cost or other burdens to which corporations are ordinarily subjected under state statutory provision. These include fees and legal expenses
incidental to drafting and filing articles of incorporation, annual fees, and expenses in connection with maintaining a resident agent, etc. In some states, such fees and expenses are not large, but in others they may prove somewhat burdensome.

- Unincorporated entities are usually required to file annual reports with state officials, to file any changes in their constitution and bylaws, and to follow statutory requirements with respect to keeping corporate records (time and place of annual meetings, etc.)

**Not-for-Profit refers to the association’s tax status, not the business plan**

**Tax-Exempt/Not-for-Profit Status**

The terminology used to describe associations is often confusing. Consequently, it is useful to clarify two key terms. Associations are generally organized and operated as both not-for-profit and tax-exempt. Not-for-profit status refers to incorporation status under state law; tax-exempt status refers to federal income tax exemption under the Internal Revenue Code, and in some states it also refers to state and/or local tax code.

While one might reasonably conclude that as not-for-profit, tax-exempt entities, associations may not earn profits (realize more income that expenditures) and need not pay any taxes, neither is correct. Not-for-profit associations are permitted to generate greater income than expenses and still retain their not-for-profit status. Not-for-profit associations cannot distribute their net earnings to members. Not-for-profit associations undertake programs to benefit members rather than private individuals. Therefore, earnings by law must be dedicated to furthering the 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.

Local affiliates/associations may also be tax-exempt entities. Associations must adhere to the federal tax codes governing tax-exempt entities. Please consult the State Business Office to discuss tax-exempt status.

**What does Tax Exemption Mean?**

*Does it mean that the association is exempt from all taxes?*  **No**

Federal tax-exempt status is granted to unions and professional associations under IRS Code Section 501(c)(5) or 501(c)(6). The **501(c)** label means that the association is exempt from paying corporate federal income tax on income generated from activities that are substantially related to the purposes for which the association was organized. (i.e. the purposes for which the association was granted tax-exempt status in the first place) However, the association may be required to pay federal and state income tax on income that is unrelated to its tax-exempt purposes (called unrelated business income tax— “UBIT”).

All 501(c) associations are subject to other taxes such as federal payroll, state and local unemployment, real estate, personal property, sales and use, lobbying activities, business license, etc.

To maintain exempt status, associations must comply, at all times, with the strict guidelines for both tax exemption and not-for-profit status. In the event you need additional information or have questions, please contact your State Business Manager.

**Internal Revenue Service (“IRS”) Requirements**

A not-for-profit organization, whether incorporated or unincorporated, is not automatically exempt from Federal Income Tax. In order to be exempt, an association must be officially recognized by the IRS as a Tax Exempt Not-for-Profit Organization. **The official evidence of your tax-exempt status is a determination letter issued by the IRS.** You may apply for exemption under Section 501(c)(5) or 501(c)(6) of the Internal Revenue Code by filing IRS Form 1024. [http://www.irs.gov/pub/irs-]
The IRS publication 557 entitled, “How to Apply For and Retain Exempt Status for Your Organization” [http://www.irs.gov/publications/p557/index.html](http://www.irs.gov/publications/p557/index.html) explains the procedures to be followed. Some local associations have exempt status as a 501(c)(6), Business Leagues. However, a 501(c)(5), labor organization status is strongly recommended. The determination letter must be kept as a permanent record.

A 501(c)(5) labor organization is an association of workers who have combined to protect and promote the interests of the members by bargaining collectively with their employers to secure better working conditions. A 501(c)(6) business league is an association of persons having some common business interest, the purpose of which is to promote that common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Trade associations and professional associations are considered business leagues.

The IRS allows for state associations to include local affiliates under a Group IRS Exemption. The state affiliate may or may not file a group return on IRS Form 990. Local affiliate Treasurers should check with the State Business Manager to determine if the state has a group exemption and if the state files or does not file a group return.

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.

**Not only can the IRS revoke a not-for-profit’s tax-exempt status as a penalty for private inurement, it can now force “disqualified persons” (generally directors, officers, or key employees) benefitting from inappropriate transactions, to pay an excise tax of 25% of the excess benefit received.**

The IRS keeps track of organizations and corporations through the Employer Identification Number (EIN), that is akin to the social security number for individuals. The employer I.D. number, sometimes called a tax I.D. number (TIN), is required: (a) when an association has employees, (b) when filing the association’s annual information return, IRS Form 990, and (c) when opening a checking and/or savings account or (d) when making other investments through banks or brokerage firms. An organization that does not have an employer I.D. number should apply for one on Form SS-4, “Application for Employer Identification Number.” This form is available at any IRS or Social Security Administration Office.


Tax Return Forms: *(Refer to Section VII – Fundraising and Contribution Transmittal Rules - for additional IRS Requirements).*

- **Tax Return Form 990/990-EZ/990-N**

  The IRS requires all tax exempt organizations to file one of the three IRS Form 990’s, depending upon the organization’s gross receipts (i.e. Local dues, interest income, fundraisers, grants, etc.). **To keep an exempt status, a 990, 990-EZ or 990-N form must be filed with the IRS. Failure to file will mean that Local dues received are taxable by the IRS.**

  Failure to file a timely return could mean a penalty of $100.00 per day, up to $5,000 for the association and/or its treasurer and potentially a loss of the association’s tax-exempt status.
Beginning with 2010 tax year (i.e. 8/31/2011), a Local with gross receipts normally (average of 3 consecutive years) more than $50,000 is required to file Form 990 with the IRS. The simpler Form 990-EZ can be used for any year the gross receipts\(^a\) are less than $200,000 and the end-of-year total assets\(^b\) were less than $500,000.

\(^a\)Gross receipts are the total monies the Local receives from all sources during its annual fiscal year, without subtracting any costs or expenses. This may include income from local dues, interest, fundraisers, scholarship funds, SEA grants, etc. It does not include UniServ, SEA or NEA dues as long as such pass-through dues have been properly segregated and paid in a timely manner.

\(^b\)Total assets include investments and savings account balances plus your Local’s checking account balance after all expenses have been paid. Total assets may also include the market value of any “physical or tangible” assets your Local owns (i.e. computers, furniture).

A Local with gross receipts (income) normally under $50,000 is required to file an annual electronic notice (Form 990-N or e-postcard).
http://www.irs.gov/charities/article/0,,id=169250,00.html

The IRS Form 990 is due on the 15th day of the fifth month after the end of the fiscal year. For example, if a Local had an August 31\(^{st}\) fiscal year-end, the filing is due January 15th. If you are unable to meet the filing deadline, you should file for an extension using IRS Form 8868
http://www.irs.gov/pub/irs-pdf/f8868.pdf prior to the deadline date. The first 3-month extension is automatic if filed by the deadline. A second 3-month extension may be requested, but requires an explanation of why the first extended deadline cannot be met and is not automatically granted. **There are no extensions for the 990-N filing.**

- **Tax Return Form 990-T**

If a local’s unrelated business income exceeds $1,000, they must file an annual tax return Form 990-T, “Exempt Organization Business Income Tax Return”. Not-for-profit organizations often conduct activities that generate income considered unrelated to their tax-exempt purpose. The IRS imposes an unrelated business income tax (UBIT) on income generated from these activities. 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 advertising income from advertisements in newsletters are common examples of unrelated business income. Interest income from checking and/or savings accounts and other investments, if not a significant part of total association income, is not considered unrelated business income and is not taxable.

- **Tax Return Form 1120-POL – Political Action Committees (“PAC”)**

If the local made political expenditures during the fiscal year, they 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.”

PAC’s are not required to file Form 1120-POL if taxable income before the specific deduction of $100 is $100 or less. **(Refer to Section VII – Fundraising and Contribution Transmittal Rules – for a full description of IRS Requirements).**

Form 1120-POL must be filed and taxes paid by the 15\(^{th}\) day of the third month after the end of your fiscal year.
Internal Revenue Service Audit

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. Normally the main reasons for an audit by the Internal Revenue Service are to determine:

- Whether the 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. *(Refer to Form 1120-POL for political expenditures.)*

Whether the 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. According to guidelines issued by the U.S. Supreme Court and the Equal Employment Opportunity Commission, a host of factors determine whether a worker is a full-fledged employee or an independent contractor, mostly having to do with who controls the employee’s workplace, hours, performance, and job security. Usually, if the association has a great degree of control over the worker’s work and how and when it is performed, the association would be considered the worker’s common law employer. [http://www.irs.gov/pub/irs-pdf/p15a.pdf](http://www.irs.gov/pub/irs-pdf/p15a.pdf) (refer to page 6 for classification of employee vs. consultant, e.g. for officer’s stipend)

- Whether all compensation to association officers or staff has been reported to the IRS. In addition to salary, the IRS considers certain travel reimbursements and allowances (including meals) and some fringe benefits as reportable compensation subject to Federal Income Tax. *If travel expenses are undocumented (e.g. missing backup receipts, not included in an expense voucher describing business purpose of expense) or are non-business related (e.g. spousal travel expenses), they should be treated as compensation and reported to the IRS.*

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

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

The need to keep adequate records to support an audit is obvious. Where the record keeping or accounting is deficient, or where the supporting documentation is lacking, the IRS will arrive at his or her own conclusions. It is unlikely that the IRS will give your association the benefit of doubt in close-call situations that cannot be supported by appropriate records and documentation. The consequences of a negative audit could be taxes, fines and penalties to an association and/or payment of individual income tax (possibly retroactive) by association officers or employees. At worst, the IRS could revoke the Association’s status as a tax-exempt organization. Establish a Document Retention Policy in accordance with local, state and federal regulations. *(Refer to Section VIII – Retention Guidelines)*

If you are notified that an audit is scheduled, please contact the SEA Business Office as soon as possible.
Independent Annual Audit/Review

An annual audit of your association’s financial records and activities by an Independent Certified Public Accountant (“CPA”) or CPA firm is advisable. The U.S. 3rd Circuit Court of Appeals ruled that unions collecting fees from non-member public-sector employees (agency fee payers) must have their financial statements independently audited. A CPA will objectively verify your financial information before issuing an opinion on the annual audited financial statements and appropriate IRS Forms.

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

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

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

Selecting an Accounting Firm

- Is the firm formally licensed to practice public accounting in your state?
- Obtain and review a copy of the firms Peer Review Report
- Is the firm a member of the following organization?
  - American Institute of Certified Public Accountants?
  - State Society of Certified Public Accountants?
- Is the firm able to provide the following references?
  - Three Not-for-Profit Clients of similar size to your association?
  - At least one Union client?
- The firm should provide formalized documented responses to the following questions:
  - How can the firm demonstrate its familiarity with the accounting and audit issues affecting unions?
  - What separates this firm from other audit providers in the area?
  - How is the firm able to show its commitment to provide service to the Not-for-Profit sector?
  - How do the firm and its staff stay on top of audit, tax and regulatory issues affecting unions/not-for-profits?
  - By what means will the audit firm add value to the audit process?
  - If you need to consult with the firm for advice throughout the year, what is their policy on determining when they would and would not charge for those services?
• Does the firm have a niche-based expertise in the Not-for-Profit area?
• Is the firm familiar with the following tax issues?
  - Unrelated Business Income
  - Contribution Reporting
  - Form 990 Reporting Issues
  - Form LM2 Reporting Issues

**Interview Questionnaire for Audit Firms**

• You have provided some information in your proposal about your experience with other not-for-profit organizations. Is there any other information that you can give us about this experience, especially as it relates to membership associations in general and unions in particular?
• How would you measure the financial success or health of a not-for-profit organization?
• What do you believe is the appropriate level of cash/investment reserves for a not-for-profit entity to maintain?
• Please describe your style in performing field work.
• Would your audit fees change if your personnel incurred either more or less than the number of hours included in your proposal?
• How would your firm balance the client’s needs for continuity of audit staff with a desire for a fresh perspective during each audit cycle?
• While our organization does not fall under the provisions of the Sarbanes-Oxley Act, please tell us how this legislation has affected your firm’s approach to providing audit and other services.
• If we needed to consult with your firm for advice throughout the year, what is your policy on determining when you would and would not charge us for those services?
• Do you provide professional development opportunities to clients (i.e. accounting updates, etc.)?

**Internal Audit Committee**

Small associations that decide they cannot afford a CPA should at least establish an Internal Audit Committee to perform an internal review annually, preferably quarterly. However, if your association has agency fee payers, the U.S. 3rd Circuit Court of Appeals ruling applies and an independent audit is required. The Audit Committee should review all payments made during the year to verify that expenditures were made for properly approved purposes. Each payment should be checked for an authorization signature by an association officer or designee, and for adequate supporting documentation that clearly indicates what the payment represents. The Audit Committee should also examine bank reconciliations, payroll records, bookkeeping records and procedures, and all other financially related areas. Upon completion of the internal audit, the Committee should file a written report to be approved by the association directors and included with the permanent records. The Audit Committee can play a critical role in maintaining the integrity of the association’s financial reporting. Members should be selected from the board or general membership and should exhibit the following qualities:

• A familiarity with how association activities are reflected in financial statements
• Some understanding of the auditing process
• Lacking the above, at least a natural curiosity and an inquiring mind

Consideration should be given to individuals with previous experience in business such as bankers, internal auditors, retired CPAs, corporate officers, etc.

The Audit Committee should be concerned with the following things, at a minimum:

• The verification of the physical existence of assets
• The accuracy of the records and the reports to the board of directors
• Ascertaining that payroll taxes, licenses, sales taxes, other taxes and corporate reports are properly filed in a timely manner
• The adequacy of internal control (a system in which the operating or recording function can be broken down into elements that are performed by different people, each check the work of others)
• The proper authorization of activities and expenditures
• A review of the tax-exempt status and identification of any activities that may endanger it

Audit Committee Review of the Association's Financial Transactions and Records

The purpose of this section is to provide certain tools and procedures which will give a local association's audit committee a reasonable basis for expressing limited assurance on the financial statements of the association. These procedures are restricted in their scope and are not intended to replace an audit of the association by outside independent accountants if presently performed or contemplated. Rather, they are intended to establish certain agreed upon procedures that will provide a reasonable oversight and uniform approach to financial management, thereby safeguarding the assets of the association that do not have outside audits or reviews of their financial statements.

To accomplish these objectives we are providing you with a “Checklist for Review of Quarterly Financial Record”. Refer to Section X – Sample Forms, Journals & Policies, Specimen V(a). Upon the completion of these procedures, the committee will have performed sufficient analytical review and record inspection to file the following report.

Audit Committee’s Report on Applying Agreed-Upon Procedures

____________________ President
____________________ Education Association

We have performed the procedures enumerated in the checklist for review of quarterly financial records as contained in the ______ Education Association Treasurer’s Handbook. Based upon completion of those procedures we have satisfied ourselves that the Association’s cash basis transactions for the ______ month period ending ________, 20__, as reflected in the accompanying financial statements, are accurately and reasonably recorded in the books and records of the Association.

____________________
Audit Committee Chair

____________________
Date

Glossary of State * and Federal Forms

This is a short glossary of tax returns. There may be other returns for which your local association is obligated to file. State forms vary from state to state—your state association should be consulted for relevant state required forms.

Keep this glossary in a prominent place as a quick reference to State and Federal forms.

Please note that instructions and forms are available via referenced websites.

1) W-2  Wage & Tax Statement
A W-2 form showing taxes withheld should be completed for each employee on or before January 31. Travel and other expense allowances for which the employee has submitted no voucher should also be reported on the W-2 form in the space listed as “other compensation”.

2) W-3  Reconciliation of Income Tax Withheld and Transmittal of Tax-Statements
Reconciliation statement filed with all forms (W-2) issued for the year to employees. Must be forwarded to the IRS on or before February 28. Must be accompanied by a list of the amounts of income tax withheld as shown on the W-2’s.

3) W-4  Employee’s Withholding Allowance Certificate
Upon hiring an employee, the association should have the individual complete a W-4 and record the employee’s name, address and social security number on the association’s permanent records.

4) 940  Employer’s Annual Federal Unemployment Tax Return
On or before January 31, every employer-association must file an unemployment tax return to IRS if it had either (a) paid wages of $1,500 or more in any calendar quarter or (b) had one or more employees at any time in each of 20 calendar weeks or (c) taxes are payable on remuneration to employees of $550 or more for each employee.

5) 941  Employer’s Quarterly Federal Tax Return
Every employer-association must file a quarterly return (941) by April 30, July 31, October 31 and January 31, if it withholds income tax from wages or is liable for social security taxes.

6) 990  Return of Organization Exempt from Income Tax
This form must be completed and filed by tax-exempt associations whose gross receipts are more than $25,000. Must be filed with IRS on or before the 15th day of the 5th month following the close of the fiscal year. Associations with less than $25,000 gross receipts should return the form to the IRS indicating “gross receipts less than $25,000” across front of form. For IRS assistance, call 1-877-829-5500.

7) 990-N  E-Postcard
http://www.irs.gov/charities/article/0,,id=169250,00.html
Small tax-exempt organizations whose annual gross receipts are normally $25,000 or less ($50,000 for tax years ending on or after December 31, 2010) may be required to electronically submit Form 990-N, also known as the e-Postcard, unless they choose to file a complete Form 990 or Form 990-EZ.

8) 990-T  Exempt Organization Business Income Tax Return
Must be filed if an association has gross income of $1,000 or more from an unrelated trade or business. The term "unrelated trade or business" means one that is not
substantially related to the exercise or performance of the function constituting the basis for the tax exemption.

9) 1096 Annual Summary and Transmittal of U.S. Information Returns
Summary form to be forwarded to IRS along with a copy of all 1099 forms issued by the association. File on or before February 28.

10) 1099 MISC Statement for Recipients of Non-employee Compensation
Used to report remuneration of $600 or more paid to those persons during the calendar year, for which no withholding of social security taxes and income tax was made over the year. A 1099 form must be issued to each person receiving such remuneration on or before January 31. These forms are generally used for accounting services, legal services, consultants etc.

11) 1120-POL Political Organization
This form must be completed and filed by a political organization (i.e. PAC’s) whose net investment income exceeds $100 in any tax year. Must be filed with the IRS by the 15th day of the 3rd month after the end of the tax year.
II. FINANCIAL PROCEDURES AND ACCOUNTING CONCEPTS

A local association is organized to provide services to its members and is dependent upon them for financial support. Thus, a local association is committed to a custodial and fiduciary role in the handling of funds. Every effort should be made to provide internal controls and procedures as well as external reports to create awareness that the funds are managed properly. The membership should also be informed as to the financial position and the operating results of the local association.

Financial advisors may differ in their methods and there is really no “absolutely right” way to apply association financial management, yet all managers should use certain basic fundamentals. Therefore, the following procedures should be followed:

Financial Requirements

- Provide a statement to the officers’ fiscal responsibility and authority.
- Budget procedures and limitations must be outlined.
- Accurate and timely financial reports must be provided.
- Cost controls must be defined and applied.
- Internal controls must be defined and applied.

Financial Organization

There is a definite interrelationship between the association’s strategies, programs, objectives, activities, and the financial organization and its policies. This applies regardless of association size.

- Large Association (generally greater than 600 members)
  - Members
  - Board of Directors
  - Audit and Finance Committee
  - President
  - Treasurer
  - Bookkeeper

  An Audit and Finance Committee from the Board of Directors usually exists. The services of an independent auditor are usually required on an annual basis.

- Small and Medium Size Association (small generally less than 100 members, medium generally less than 600 members)
  - Members
  - President
  - Secretary/Treasurer

  The officers periodically review the financial results of the local, preferably on a monthly basis. Local members with financial expertise should be added to the team.

Financial Policies

There are four major sources of financial policies for an association.

1. Many policies are stated in the constitution or bylaws:
   - Definition of roles (President, Vice-President, Secretary-Treasurer)
   - Dues assessment (calculation of amount and due dates)
   - Bonding (who is covered, how much)
   - Fund balance/reserve restrictions (amount, how to use)
• Authority to conduct business (investments, borrowings)

2. Policies are also established through Executive Committee actions:

• Preparation of reports (who makes, frequency)
• Conflict of interest (roles with other bodies, honorariums)
• Payment policies (who, limitations, timing, discount)
• Banking (who can sign, co-signatures, which bank)
• Audit/review (frequency, scope, books to be maintained, who does the audit/review)
• Bills paid by authorization only (Board approval, receipt voucher, etc.)

3. Another source is the Budget Committee:

• Budget development and responsibility (variances, approval of changes)
• Capitalization policies (building remodeling, equipment replacement, separate funds)

4. And finally federal, state and local authorities:

• Internal Revenue Service (IRS)
• Department of Labor (DOL)
• Federal Election Commission (FEC)
• Equal Employment Opportunity Commission (EEOC)

Financial Statements

Financial statements should provide the local association members with a summary of the financial status and operation results. The Treasurer should deliver, present and report on financial results at every regularly scheduled meeting of the Local. The report should detail items in the statements noted below. **An oral statement giving the cash balance in each of the accounts is not an adequate financial report.**

Basic financial reports should include:

• Statement of Financial Position often referred to as the Balance Sheet or Statement of Financial Condition
• Statement of Revenue and Expense often referred to as the Statement of Activities or Income Statement that compares budget to actual results
• Statement of Change in Financial Position is designed to present information on the financing and investing activities of an association. It is often referred to as the Statement of Cashflow.
• Statement of Changes in Net Assets or Changes in Fund Balances shows the increases and decreases in net assets over a given period of time.
• Each statement should include a comparative numbers from the prior year

Accounting Terminology and Concepts

Basic Terminology:

This information is not intended to be a complete accounting text. However, common understanding of some basic accounting terminology will help in communicating certain concepts. The following definitions apply to the terms generally used in accounting texts and in this handbook:
♦ Assets
The amount the association owns or is owed that has a positive value. Examples include cash, dues receivable and office furniture. In accounting, assets are generally debit items.

♦ Liabilities
The amounts the association owes to others such as an office supply company, the utility company, NEA dues, state dues, the bank or mortgage holder, lease obligations, or other creditors. In accounting, liabilities are generally credit items.

♦ Net Assets
The difference (net) between the total assets and total liabilities. This is sometimes called Fund Balance or Net Worth.

♦ Current Assets
The portion of the total assets that is cash or will be converted to cash within one year. The convertible items usually include short-term investments and payments due from members for dues.

♦ Fixed Assets
The portion of total assets that is tangible and unlikely to be converted to cash such as land, buildings, furniture and equipment.

♦ Other Assets
The remaining portion of total assets that does not fit into either of the other two asset categories. Typical inclusions are long-term (beyond 1 year) or restricted investments and long-term notes receivable.

♦ Current Liabilities
The portion of total liabilities that the association owes within one year. Included are such items as office expenses incurred but not yet paid, NEA and state dues accrued or collected from members and owed to the state, mortgage principal payments due within the next 12 months, withholding taxes collected but not paid, and the cost of staff vacation leave earned but not yet taken.

♦ Long Term Liabilities
The portion of total liabilities that the association owes beyond one year. The major inclusions are the mortgage balance, severance pay earned by long time employees, long-term notes and capital lease commitments.

♦ Statement of Financial Position (often called the Balance Sheet)
The report includes assets, liabilities and net assets. The “balance” is arrived at as follows:

\[
\text{Total Assets} - \text{Liabilities} = \text{Net Assets} \quad \text{Or}
\]

\[
\text{Total Assets} = \text{Liabilities} + \text{Net Assets}
\]

\[
(1) = (2) + (3)
\]

<table>
<thead>
<tr>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Assets</td>
</tr>
<tr>
<td>What is owned</td>
</tr>
<tr>
<td>(3) Net Assets</td>
</tr>
</tbody>
</table>

Left hand side
\[(Debit items)\]

Right hand side
\[(Credit items)\]
Receipts
Includes all cash received, whether it is “revenue” for the Association or not. Non-revenue items can include NEA and state dues, security and damage deposits for rental space and expense reimbursement from outside sources.

Revenue
Receipt of cash (or a promise to pay) in exchange for an item or a service delivered to someone within a fiscal year. Typical items included are local association dues, NEA and state projects, and related funds and interest earned on investments. Please note that NEA and state dues are “pass through” amounts that are recorded as Revenue at the organizational level where the dues are owed, not at the local.

Disbursements
Includes all cash paid out, whether it is an expense for the association or not. Non-expense items may include transmittal of NEA and state dues, purchase of fixed assets (land, buildings, furniture and equipment), and advances to staff or leaders.

Expenses
Disbursements of cash (or a promise to pay) for an item or a service received, used or consumed within the fiscal year. Typical items included are salaries, benefits, paper and other office supplies, mileage reimbursement, meals, lodging, office rent, etc.

Current Ratio
This is a measure of financial liquidity and ability to pay obligations as they become due. The ratio is the current assets divided by the current liabilities. This represents the number of dollars of current assets that are available to pay current liabilities. A ratio of 1.0 to 1.5 is minimal. It should never be less than 1. A ratio of at least 1.5 (of current assets) to 1.0 (of current liabilities) is an indicator of a desirable financial position.

Internal Control
The procedures, practices and systems that provide assurance of the completeness and accuracy of the accounting data used in decision-making. According to the American Institute of Certified Public Accountants Statement on Auditing Standards, it is “…the plan of an organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, promote operational efficiency, and encourage adherence to prescribed managerial policies.”

Depreciation
An accounting technique for allocating the cost (expense) of a fixed asset over its estimated useful life. Auditors typically use the “straight line” method for determining the amount to allocate. The annual amount is determined by dividing the cost (total cost including taxes, freight etc.) of the item by the number of years it is expected to last and then transferring that amount to a depreciation expense account each year. (E.g. A computer that costs $3,000 and has a useful life of 3 years would be depreciated at a rate of $1,000 per year.) This recognizes a depreciation expense of $1000 each of the 3 years and reduces the value of the asset (accumulated depreciation) by the same amount each of the 3 years.

Accrual
The process of recognizing income in the fiscal year in which it is “earned”, regardless of when the cash is received or of recognizing expense when it is “incurred”, regardless of when the bill is paid. An example would be the recording of the annual dues obligation as income when a membership form (or group of forms) is processed rather than just recognizing the amount of cash received. On the expense side, it means recording the expenses that have been incurred at the end of each month even if the payments have not yet been made. An example would be recording insurance expense incurred but not yet paid.
Chart of Accounts
The list of all accounts used in the accounting system, including account codes (e.g. Account 101 – Bank of America Checking Account, Account 210 – Accounts Payable, Account 301 – Dues Income, Account 410 – Travel Expense).

Double Entry Bookkeeping
Every transaction must have both a debit and credit totaling an equal value: for example, a debit to cash would be offset by a credit to an income account, a liability account or another asset account. A checkbook is a single entry bookkeeping system.

Cash, Bank Balance & Checkbook Balance
- **Cash**
  Use of this term includes coins, currency and checks (e.g. petty cash fund, checking account).

- **Bank Balance**
  The amount remaining at a given date in a checking or savings account shown on the monthly bank statement. This is to be reconciled with the cash/checking account balance shown on the association’s books. The bank balance may differ from the checkbook balance due to timing differences. (Refer to Section IV – Accounting Systems – for Bank Reconciliations)

- **Checkbook Balance**
  The checkbook balance is equal to funds deposited less checks issued and bank charges.

Cash Accounting
Cash accounting is a system whereby income and expense are recognized in the fiscal period only when cash is actually received or expended.

Accrual Accounting
As distinguished from cash accounting, accrual accounting is a system whereby income and expense are recognized in the fiscal period in which they belong (earned or incurred); regardless of the time cash is received or expended.

Accrual accounting requires additional accounts not found in a cash system. These additional accounts include:

- **Accounts Receivable**: (a) Recognizes income (a credit) before cash is received. The debit, as the offsetting (double) entry, goes to the receivable account. (b) When cash is received, cash is debited and the receivable is credited.

<table>
<thead>
<tr>
<th>CASH</th>
<th>ACCOUNTS RECEIVABLE</th>
<th>INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) $500</td>
<td>(b) $500</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td>(a) $500</td>
</tr>
</tbody>
</table>

  Accounts Payable: (a) Recognizes expenses (a debit) before cash is disbursed. The credit, as the offsetting (double) entry, goes to the payable account. (b) When cash is disbursed, cash is credited and the payable is debited.

<table>
<thead>
<tr>
<th>CASH</th>
<th>ACCOUNTS PAYABLE</th>
<th>EXPENSE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) $200</td>
<td>(a) $200</td>
</tr>
<tr>
<td>(b)</td>
<td>(b) $200</td>
<td></td>
</tr>
</tbody>
</table>

   Prepaid Expense: Recognizes that a disbursement of cash is for expense in a future period (future benefit). (a) A prepaid expense (asset) is debited and cash is credited when the disbursement is made. (b) In a future period when the expense is recognized, the prepaid expense account is credited and the expense account is debited.
CASH  |  PREPAID EXPENSE |  EXPENSE
--- | --- | ---
(a) $300 | (a) $300 | (b) $300 | (b) $300

Deferred Income: Recognizes that receipt of cash is for income in a future period. (a) A deferred income account (liability) is credited and cash is debited when cash is received. (b) In a future period when the income is recognized, the deferred income account is debited and the income account is credited.

CASH  |  DEFERRED INCOME  |  INCOME
--- | --- | ---
(a) $400 | (a) $400 | (b) $400

The key to interpreting a statement based on accrual accounting is to recognize that reported income may not yet be reflected in cash received and reported expense may not yet be reflected in cash expended. Receivables and payables should be examined as well to get a complete picture of the financial health of the association.

The value of accrual accounting is that it gives you a more complete picture of your financial status than does the cash method. Accrual accounting, however, does assume there will be total collection of all receivables, which is seldom true.
Budget Philosophy

A budget is a written document that expresses the goals and objectives of the association in terms of dollars. It is a method of establishing priorities for the allocation of available resources. It represents the financial plan for the association. It is a guideline for spending and should not be considered absolute or inflexible. It is based on the best information available at that time. It is a combination of value judgments, choices and compromises. Combined with a financial report, it becomes a valuable program evaluation tool.

A budget should not be considered either a minimum or a maximum spending commitment. It should be based on reasonable, attainable goals. There should be wide participation during its development, especially by those responsible for its implementation. It should be completed before the date it is to become effective.

If the definitions are too vague or the appropriate participation is not included in the development phase, the budget may be ignored. It may become easy to lean on the “flexibility” arguments. If it is a plan, a statement of goals and objectives and an expression of priorities, then it should be followed, unless changed by the appropriate governing body.

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? If not:
  - Was the goal unrealistic?
  - Should an alternate plan be adopted?
  - Should we re-evaluate the allocation of our resources?
  - Should we seek additional resources?
  - Was our time and money diverted to other, more critical goals?

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.

Budgeting cannot be effective in a poorly structured organization, or where leadership and members are not communicating effectively. The budget-building process can help strengthen the organization and provide meaningful internal, two-way communication.

Budget Development

The steps and organizational set-up that follow are suggestions for your consideration. Evaluate them as they relate to your association and the needs of your members.
- Select a budget committee. The committee should include the treasurer, president-elect and one or two at-large members of your association. Keep this committee fairly small, even if your association is large, since later steps in the budget process will involve the rest of your members.

- Establish a timetable for completing the various stages of the development process. Work back from the date the budget must be adopted by your delegate body. The body authorized to adopt the budget should be specified in your local bylaws (total membership representative assembly, or executive board, etc.) The following is a sample calendar:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1</td>
<td>School Board notification of dues withholding</td>
</tr>
<tr>
<td>April 30</td>
<td>Membership meeting to adopt budget and dues</td>
</tr>
<tr>
<td>April 14</td>
<td>Recommended budget distributed and discussed with general membership by Area Representative</td>
</tr>
<tr>
<td>April 7</td>
<td>Representative council reviews proposed budget and makes recommendations to membership</td>
</tr>
<tr>
<td>March 4</td>
<td>Proposed budget sent to representative council by budget committee</td>
</tr>
<tr>
<td>Feb. 24</td>
<td>Deadline for program committees to submit budget recommendations to the budget committee</td>
</tr>
<tr>
<td>Feb. 20</td>
<td>Survey details given to program committees by budget committee</td>
</tr>
<tr>
<td>Feb. 15</td>
<td>Surveys due back from Area Representatives</td>
</tr>
<tr>
<td>Feb. 4</td>
<td>Surveys sent to membership</td>
</tr>
<tr>
<td>Jan. 29</td>
<td>Membership survey completed by budget committee and prepared for distribution to membership</td>
</tr>
<tr>
<td>Jan. 8</td>
<td>Budget committee begins work on a new budget</td>
</tr>
</tbody>
</table>

- Develop a method for identifying members’ requirements and/or requests. This may be accomplished through a general membership meeting, building meeting, a member questionnaire, a small sample questionnaire, informal meetings, etc.

- Gather the requests, requirements and surveys if used. Distribute to the appropriate officers and chairpersons of local committees for development of programs that reflect the results. Submit budget requirements to the budget committee within the timetable established.

- Compile the results as submitted by the program committees and categorize under headings as suggested by the Chart of Accounts (e.g. Negotiations – Committee Meeting Expenses).

- Submit the compiled results to the officers and executive board for consideration and evaluation. Realistic income projections must be developed as it determines your association’s ability to finance the proposed program. Since the proposed budget will ultimately be the president-elect’s responsibility to administer, it would be advisable for the president-elect to chair the budget committee and for the executive board to chair the evaluation session.

- Present the proposed budget to the members, advising them of any local dues increases if applicable.
Following approval of the budget, submit it to the treasurer for implementation to ensure the budget format conforms to the association’s bookkeeping system (e.g. new accounts).

**Budget Implementation**

• Begin by including the current, year-to-date income and expenses plus projected income and expenses for the remainder of the fiscal year. This may be used as a basis of comparison and reasonableness. *(Refer to Section X - Samples - for Specimen III A and B, Budget Worksheet and Summary)*

• The proposed budget will determine how much your association will spend on each program. Estimate the amount your association will spend for individual items within major accounts. Disregard items in Specimen III A and B that do not apply to your association and add items as needed.

• An assigned number can identify the major programs. Coding will make it easier to refer to programs on checks and the association books.

**Variance Analysis**

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. If the budget is forecast to be over budget (expenses exceed revenue) for the year, a decision will have to be made as to how to balance the budget. This may include a) reallocating budget dollars among various programs and services; b) raising revenue (i.e. by increasing dues); c) cutting back on certain programs during the current year; or d) continuing scheduled programs for the year and using reserves to fund them.

A popular format for variance analysis is tabular. Refer to the next page for an example:

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

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

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

**Cash Reserves - How Much Money Should a Local 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. Region leaders sometimes feel that if they carry over “too much” money from year-to-year, they will invite scrutiny of their operations.

Under normal circumstances, the IRS is not going to take an interest in the size of your bank balance. They are more concerned with how you spend your money than how much you accumulate.
It is always prudent to accumulate funds for an unexpected opportunity or emergency. How much you accumulate depends on factors such as the volatility of your membership level, the different types of activities that you engage in, your relationship with your employer, and your members' acceptance of the need for maintaining “extra” funds. We suggest that you have a plan in terms of accumulating funds. This will make it easier to explain to your members.

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

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

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

**Investments**

Another common misconception is that locals or regions should not earn interest on their funds. While this is true of your political action funds, it is not true of your general operating funds. Every dollar that you earn in interest is a dollar that does not need to be collected in dues. 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 normal alternatives are checking accounts, savings accounts, money market accounts, and certificates of deposit.

The goal should be to maximize the excess of your interest income over the amount of banking fees that you pay. 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 most 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 the above 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.

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

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

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

The accounting function can be described as a system for collecting, classifying, reporting, and interpreting financial information that is relevant to the operation of the association. A major purpose of accounting is to provide information about the operational effectiveness of an association during a period of time and its financial condition at a particular date. The system itself will depend on many factors including:

- Size of the association
- Size of the budget
- Number of transactions
- Number and detail of account categories
- Informational needs
- Organizational policy

Accounting systems in use by local associations range from manual systems, which use a checkbook register and/or special journals to sophisticated computer systems which maintain accounting records on disc. In this section, a basic manual accounting system will be discussed with a check register, cash receipts journal, and cash disbursements journal. QuickBooks Online and Quicken Deluxe are recommended for most local associations.

Accounting Software Recommendations for Local Associations: For Membership Size Less Than 200

Accounting Solution:
- Quicken Deluxe 2011

Website: [http://quicken.intuit.com/personal-finance-software/deluxe-money-management.jsp](http://quicken.intuit.com/personal-finance-software/deluxe-money-management.jsp)

Price Range:
- $59.99 one-time charge

System Requirements:
- Computer: 1 GHz
- Operating System: Windows XP SP2+, Vista, Windows 7 (32- and 64-bit)
- Memory: 1 GB
- Hard Disk Space: Up to 450 MB free space, up to 1 GB if .NET not installed
- Monitor: 1024x768 or higher resolution
- CD-ROM Drive: Required
- Internet Connection 56 kbps (broadband recommended for online services)
- Sound: Sound card and speakers recommended
- Printer: Any printer compatible with Windows XP SP2 or later
Technical Support:
- Available online, email or phone for setup and system support

Available Online Training:
- In-product tutorials and help windows

Pros:
- Affordable one-time charge
- Easy to learn and use
- Update bank and credit card data with one password
- Track and categorize expenses
- Store statements, checks and other records electronically
- View all your finances in one place
- Pay your bills on time online – bring all online accounts together in one place
- Get suggested spending limits and set goals based on day-to-day information you enter and then check your progress throughout the month
- Pocket Quicken for Palm OS and Pocket PC handhelds is available to help keep information up-to-date wherever you go.

Cons:
- Without automatic data backups, there is a potential to lose all data.
- Access is limited to one computer
- No audit controls/tracking

**Accounting Software Recommendations for Local Associations: For Membership Size 200 or Greater**

Accounting Solution:
- QuickBooks Online Edition

Website:

Price Range:
- $24.95/month (price may vary with a quantity discount)
- Try it free for 30 days (first-time users only)

System Requirements:
- Computer: 1 PC - GHz computer with 256 MB of RAM running Windows XP or later; Mac – Intel-based Mac running OS x 10.5 or later
- Latest version of Internet Explorer, Firefox, Google Chrome or Safari for Mac
- High-speed internet connection (DSL, cable, T1)
- Monitor: 1024x768 screen resolution
- For Windows users: Adobe Reader 7.0 or later is required for printing invoices, checks, and other forms
- Software Integration: Export to Excel requires Excel 97 or later
• Printer: A laser or inkjet printer is required. They do not support dot-matrix printers.
• Multi-Users: No additional requirements

Technical Support:
• Product support is included
• Free support and call back within 30 minutes
• 24 hours/day instant answers from Knowledge Base
• Mobile access from your iPhone or Blackberry

Available Online Training:
• In-product tutorials and help windows
• Free guides, tips and tricks and online demos

Pros:
• Multi-User access (up to 3, plus your accountant)
• Connect multiple locations
• Ensures continuity of operations
• Control access to your Online Edition finances and what they see with password protection and multiple permission levels
• Automatic upgrades
• Income and Expense tracking
• Automated online banking
• Create, print and email invoices
• View, print and email over 65 customizable reports
• Data integration, import and export (e.g. send reports to Microsoft Excel)
• Provides an audit trail
• Print checks, pay bills and track expenses
• Access your information anytime, anywhere
• Business checklist to get you started, no accounting necessary
• Automatic data back-up every day
• Firewall-protected servers
• No software to install

Cons:
• Ongoing monthly expense
• Online payroll sold separately

The Checkbook Register

The simplest form of single entry bookkeeping is the check register included with a regular checking account. This register is used for recording deposits and checks written. If the number of entries during your reporting period is small (fewer than 10 transactions), then the checkbook may be adequate.

The format available from your particular bank may vary from the following, but should include the following at a minimum:
### Expanded Check Register

This form of bookkeeping can handle a greater volume of transactions than the checkbook register, but presumes a limited number of account categories. It assumes only one asset account, the bank balance. It is based on the most elementary form of double-entry bookkeeping, in that each transaction is entered twice, once showing its impact on the bank account and once distributing it to the proper income or expense category.

### The Accounting Form

<table>
<thead>
<tr>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>(e)</th>
<th>(f)</th>
<th>(g)</th>
<th>(h)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Check #</td>
<td>Desc</td>
<td>Check Amount</td>
<td>Deposit Amount</td>
<td>Bank Balance</td>
<td>Dues</td>
<td>Other</td>
</tr>
</tbody>
</table>

- **a.** Enter the date of the transaction.
- **b.** Enter the check number.
- **c.** Write a brief description of the transaction, including name of the payee and invoice number and/or invoice date for a check or the source of income for a deposit.
- **d.** - **f.** Enter the full amount of the check in column (d), the full amount of the deposit in column (e) and record the new bank balance in column (f) (previous balance plus deposits, minus checks).
- **g.** - **h.** For each deposit, enter the amount again in either column (g) or (h) depending on the nature of the income.
- **i.** – **l.** For each check, enter the amount again in one of the columns (i) through (l) depending on the nature of the payment.
- **m.** – **n.** Monthly reports can be drawn from the totals shown at the end of the page.

### Cash Receipts Journal

<table>
<thead>
<tr>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
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<th>(e)</th>
<th>(f)</th>
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<th>(h)</th>
<th>(i)</th>
<th>(j)</th>
<th>(k)</th>
<th>(l)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Check #</td>
<td>Description of Transaction/Invoice #</td>
<td>Check/Debit $</td>
<td>Deposit/Credit $</td>
<td>Bank Charges</td>
<td>Balance $</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Check #**
- **Check Date**
- **Description of Transaction/Invoice #**
- **Check/Debit $**
- **Deposit/Credit $**
- **Bank Charges**
- **Balance $**

### Instructions

- **a.** Enter the number of the check used.
- **b.** Enter the date the check is written.
- **c.** Write the name of the payee and the purpose or nature of the bill being paid or deposit made. Include invoice number and/or invoice date.
- **d.** Enter the amount of the payment.
- **e.** Enter the amount of the deposit.
- **f.** This column is used to note that a check has been returned (cashed by payee) or the bank has credited a deposit when the bank account is reconciled. Place a check mark by checks and deposits that have “cleared” the bank.
- **g.** Enter bank service charges and/or bank credits in this column.
- **h.** Enter the amount of the transaction on the upper line and subtract (if a check or a bank service charge) or add (if a deposit or a bank credit) to the prior balance. Enter the new balance on the lower line.

At the close of the reporting period, the transactions can be listed in a report exactly as they appear in the checkbook record. This system is applicable to locals that have a small number of transactions in any given period.
The Cash Receipts Journal *(Refer to Specimen IV(a), Cash Receipts Journal, Section IX)* provides the accounting record and distribution of all receipts by the association.

A Cash Receipts Journal can be used to record cash receipts from the following sources:

- Local Dues
- Agency Fee
- Interest—Savings Account
- Assessments
- Donations—Financial Assistance
- Income from social dinners, etc.
- Strengthening Locals
- Miscellaneous

A Cash Receipts Journal may be set up with separate columns for the various sources as described below:

**Column 1: Dues**  
Local dues received are recorded in this column.

**Column 2: Agency Fee**  
Agency fee monies are recorded in this column.

**Column 3: Interest**  
Local associations will frequently deposit "excess" cash (not needed for current obligation) in a savings account. Any interest earned on a savings account is recorded in column 3 and must agree with amounts recorded by the bank in the savings account passbook/statement.

**Column 4: Assessments**  
The association may assess members to meet unexpected obligations. When collected, these assessments are recorded in column 4. The treasurer should issue a receipt or maintain a list of people assessed.

**Column 5: Donations**  
The association may receive financial assistance/donations from the state affiliate and/or other organizations to defer unexpected or unusually large obligations involving the legal and professional rights of members. This type of receipt is recorded in column 5. A receipt should be issued to the party making a donation.

**Column 6: Income from Social Dinners, etc.**  
Local education association may conduct professional activities such as social dinners. Cash/checks received from these activities should be recorded in column 6. It is important that all payments received from a specific activity are deposited intact. For example, if 100 dinner tickets were sold at $10.00 per ticket, $1,000 should be deposited intact. No expenses should be paid out of receipts. Expenses should be paid by check upon receipt of approved bills. A receipt should be issued upon receiving the cash. The program chairman should provide the treasurer with a breakdown of dinner receipts, etc.

**Column 7: Strengthening**  
Some state affiliates will reimburse local associations for a percentage of the local’s approved expenses and a per capita amount based on the rate of local association dues.

**Column 8: Miscellaneous**  
Any miscellaneous sources of cash receipts should be recorded in column 8. The nature of miscellaneous cash receipts is not self-explanatory, therefore, an explanation should be provided.
There may be other sources that will be applicable to your association. This is an example of some of the sources that may be relevant to your local association.

Normally, the monies received under column 1 and columns 3 – 8 are deposited in the General Purpose Checking Account. The total deposit must be recorded in the checkbook for the General Purpose Checking Account. Monies received from agency fee payers (or fair share fee payers)\(^a\) should be remitted directly to the state affiliate.

\(^a\)Fair Share Fee Payer pays a “fair share” fee certification to the SEA and NEA for the services it renders to the non-member in its capacity as the exclusive bargaining representative. Fair share fee payers are not members for governance purposes (i.e. no voting rights, can’t hold office). Fair share rebates are typically provided upon timely written request.

**Cash Disbursement Journal**

The Cash Disbursement Journal *(Refer to Specimen IV(b), Cash Disbursement Journal, Section IX)* gives a treasurer a complete picture of all of the money that has been spent by the association. The Cash Disbursement Journal can facilitate the preparation of financial reports. For instance, if you were preparing a report of bills paid through December 15th, you would put a line under all bills paid as of December 15\(^{th}\) and total each column. The totals would provide a summary of the bills to date by category and may be used for reporting purposes.

If a local association treasurer prefers a more detailed classification of expenditures than provided on the Cash Disbursement Journal taken from the Expense Voucher *(Refer to Specimen IV(c), Section IX)*, (s) he may record a transaction in an appropriate sub-classification account. *Specimen IV(d)* illustrates a suggested format. If this is the preferred method, after recording a transaction in the Cash Disbursement Journal, the treasurer sub-classifies the transaction by making the appropriate entry in this sub-classification account.

When preparing year-end reports, treasurers are frequently expected to provide details of the cash expenditures. *Specimen IV (e), Cash Expenditures Detail, Section IX*, can facilitate this reporting. The data for *Specimen IV (e)* is obtained by transferring the year-end totals from *Specimen IV (d)* to the “Actual” column in *Specimen IV (e)*.

Note: All Association Journals should be reconciled to the bank statements every month. Banks generally charge service fees. These fees may be identified as “SC” items on your bank statement. A bank service fee should be reconciled in the same manner as other expenditures. A voucher is prepared and recorded in the Cash Disbursement Journal.

**General Purpose Checking Account**

The General Purpose Checking Account is used to pay the bills of a local association. This checking account is increased by deposits and interest earned, if applicable, and decreased by checks and bank service charges. Except for petty cash, all bills should be paid by check. The treasurer should remember the following when writing checks:

- Checks should be written only when authorized approvers have approved bills.
- Never sign a blank check (one without the payee and amount filled in).
- Ideally, checks should require dual signatures.
- Checks should be pre-numbered. Checks should be used in sequential order. Every check number should be accounted for. Voided checks should be defaced by writing VOID across the check and filed in order.
- Before writing a check, the check stub should be filled out.
- After writing a check, the bill should be marked paid with the check number, check amount and date of payment attached to the voucher so that it is not erroneously paid a second time. A
policy should be established so that payments are made against original invoices only. Paying from a copy or a statement could result in duplicate payment.

- Someone other than the treasurer should reconcile the General Purpose Checking Account to the bank statement on a monthly basis.

When the treasurer receives a bill, an expense voucher should be filled out and attached to the bill (Refer to Section V – Internal Controls & Banking Relationships). All vouchers should follow this process with the exception of petty cash transactions and bank service charges. An Expense Voucher should include the following:

- Voucher number: Vouchers should be pre-numbered and used in sequential order.
- Check number: The check number used to pay the bill.
- Amount: The amount paid on the bill and the check amount if different (e.g. paying multiple invoices with one check).
- Approved for payment: The appropriate approval level based on authorization levels (ideally the president and treasurer).
- Received by: The person receiving the check should sign for it unless the check is being mailed.
- The bottom half of the voucher references the type of expense.

**Petty Cash**

On occasion, the treasurer will receive a request for small expenses (less than $5). It is not practical to write a check for each small expense; therefore it may be paid from a petty cash fund. A petty cash fund maintains a minimal cash balance (generally $20 - $50) and is kept to meet small payments. To establish a petty cash fund:

- An expense voucher is written for the amount of the initial petty cash fund (e.g. $50), payable to “Petty Cash”.
- The check for Petty Cash is shown in the Cash Expenditure Journal under the miscellaneous column, with Petty Cash as the explanation.
- When the petty cash check is cashed, it is kept in safe place (in a safe or locked drawer).
- As expenses (under $5) are received, a petty cash voucher (Specimen IV (f), Petty Cash, Section IX) is completed with the receipt attached if available. 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 (e.g. under $15), the cash should be replenished for the amount used. In other words, the amount should equal the total of the petty cash vouchers used.

Note: At any time, the petty cash plus the petty cash vouchers must total the amount of the petty cash fund (e.g. Cash $15, Vouchers $35 = $50).

**Bank Reconciliation**

The local treasurer should receive a bank statement every month for each bank account. The balance on the bank statement may not agree with the checkbook balance. The following items usually account for the differences between the bank statement balance and the checkbook balance: outstanding checks, deposits in transit, bank service charges/credits, and errors by the bank and/or the treasurer. The bank reconciliation should be prepared monthly to verify that the two independent sets of records (bank statement and checkbook) are in agreement.

*Specimen IV (g), Bank Reconciliation, Section IX*, is a common bank reconciliation form and may be used as follows:

- Complete the heading with the applicable month and year.
Enter the ending bank statement balance at (1) and the ending (month-end) balance of your checkbook at (2). Enter bank account name if more than one bank account is used.

Compare the deposits listed on your bank statement with the record of deposits. The record of deposits may be found in the checkbook or the Cash Receipts Journal. Any deposits in the checkbook/Cash Receipt Journal that the bank has not recorded should be listed as a Deposit in Transit (3). Any deposits that may not have been recorded in the checkbook but are included in the bank statement should be listed under “Plus: Correction” (4) with a brief description.

Compare the amounts of the “Paid or Canceled” checks returned with the bank statement with entries on the bank statement and entries in the checkbook. Any difference(s) must be recorded as a correction (5) and/or (6). This does not include outstanding checks. If the check amount in the checkbook is greater than the check amount in the bank statement, add the difference (5). If the check amount is less than the check amount in the bank statement, the difference should be listed under “Less: Service Charge & Corrections” (6). Include the check number as a description. These differences must be recorded in the checkbook/Cash Disbursement Journal if the checkbook amount is incorrect. If the bank amount is incorrect, note this on the bank reconciliation and notify the bank of the error immediately.

Checks that have been written but have not yet cleared the bank by the end of the month are called “outstanding checks”. Compare the checkbook/Cash Disbursement Journal listing of checks written with the canceled/cleared checks from the bank. Any checks written which are not returned, are “outstanding” and should be listed under (7) including check amount and check number.

Identify the amount of service charge included in the bank statement that has not deducted in the checkbook. This should be deducted at (8) with a description. The charge should also be recorded in the checkbook/Cash Disbursement Journal.

Review the bank statement for additional charges/credits not recorded in the checkbook. List these items at (7). Additional credits should be listed at (5).

Total the two sides of the bank reconciliation. The adjusted bank balance and the adjusted checkbook balance (9) should agree. The checkbook balance must be corrected to reflect the adjusted balance. Adjustments would include service charges, other bank charges and credits, and errors made in the checkbook. Bank errors should not be included in the checkbook balance.
V. Internal Control & Banking Relationship

Basic Controls

Internal control refers to a system of financial checks and balances designed to minimize errors or misappropriation of assets, maximize the detection if it occur and protect the association overall. It is the treasurer’s responsibility to safeguard the assets of the association by ensuring these controls are in place.

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 the person who approves a bill to be paid should not be the same person who signs the check to pay it. However, it is likely that your association does not have paid staff support, there are only one or two bank accounts (checking and savings) and there is only one person handling everything - the treasurer. It may not be easy or practical to involve several people in all financial transactions and therefore you may assume that your association will have poor internal control. In spite of this situation, there are some possible safeguards to alleviate this potential problem.

Listed below are some basic internal controls applicable to most local associations. Refer to Section IX – Financial & Operational Standards – for Internal Control Policy and additional internal control activities and questions.

1. Cash Receipts:
   - Incoming mail should be opened and listed by persons other than those with access to cash receipts journals and accounts receivable records. The purpose of making a list of all checks and cash received is to insure that a record is made of the amount that was received.
   - A person with no access to cash should compare cash receipts records to deposit slips.
   - The person opening the mail should stamp Receipts/Checks “For Deposit Only.”
   - Pre-numbered receipts should be given for contributions, gifts, etc.
   - Persons other than those opening mail and listing receipts should enter cash receipts in the journal daily.
   - The receipts of checks and cash should be deposited intact daily with the date of the deposit indicated on the journal sheet. The bank deposit slip totals should match log sheet totals.
   - Individuals handling cash should be bonded.

2. Cash Disbursements:
   - All disbursements, except petty cash items, should be made by checks. Supporting documents should be attached. This is to insure that there will be a permanent record of how much and to whom money was paid.
   - Checks should always be payable to a specific person/company including petty cash disbursements. This makes it more difficult to fraudulently disburse funds.
   - Persons other than those approving invoices should prepare checks.
   - Checks should be paid from original vendor invoices. Copies of purchase orders, invoices, and receiving reports should be attached when presented for signature.
   - Checks should be entered in the disbursements journal exactly as they have been prepared.
   - Signing of blank checks should never be permitted.
   - Annually, the Board should authorize bank accounts and signers of checks.
   - Two signatures are recommended on all checks. Two-party signatures reduce the possibility of an unauthorized disbursement. The governing board should authorize all check signers.
   - 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 supply of checks in a secure place. There should be adequate controls over supplies of blank checks. This control is to ensure that checks are protected against loss by fire or theft.

• A person other than the person preparing the bank reconciliation should receive bank statements directly from the bank. This control prevents one from fraudulently issuing a check for personal use and or covering up this disbursement in the books.

• 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. Payments should be paid from original invoices only.

3. Other:

• Monthly bank reconciliations are 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.

• One of the most effective controls is the use of a Budget Status Report which compares budgeted figures to actual figures on a monthly basis. If unusual or material deviations are identified and researched, the likelihood of large misappropriations not being detected fairly quickly is reduced considerably. This type of analysis can uncover problems on a timely basis.

• 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.

• By providing monthly reports, the detection of errors or misappropriation is more likely. A list of deposits and withdrawals should be made available for review at every regularly scheduled local business meeting. This may be as simple as photocopying the local’s check register with notes. The treasurer should verify that state affiliate and NEA dues have been transmitted to the state, noting the date they were transmitted.

• The budget and the board of directors’ minutes are an excellent source of verification of financial activities in a broad sense. Additionally, the corporate charter and bylaws should be reviewed to determine that all activities comply and that the designated individuals are performing their proper functions.

• Determine the physical existence of assets by verifying bank balances, counting securities owned, and reviewing equipment. An examination of deeds and tax assessments is another procedure for verifying the existence of real property owned.

• Ascertain that tax returns and corporate reports are filed in a timely fashion. Failure to comply with these requirements will expose the association to possible fines or penalties.

4. Technology:

• As associations become more technologically driven and the speed of information delivery becomes paramount, both general computer and financial controls are critical to ensure information is processed correctly. These controls are needed to ensure the accuracy and completeness of your financial information, reduce the risk of unplanned business interruptions, ensure your information is secure from outside intruders and catch invalid information at the source. Consider the following questions. Do you have:

• Virus protection software to prevent destruction of programs and data?

• A disaster recovery plan?

• Proper backup and data storage procedures?
Quick Reference Do’s

☺ Do make sure that the assets of the association are safeguarded and used solely for the benefit of members.
☺ Do adopt a budget prior to the start of the fiscal year.
☺ Do compare budget to actual expenses on a monthly basis.
☺ Do identify and explain differences between budget and actual expenses and plan accordingly.
☺ Do prepare and present complete and accurate financial statements to the board of directors on a monthly basis.
☺ Do make deposits timely. Keep detailed records of all deposit transactions.
☺ Do remit the NEA/LAE/SAE membership dues timely in accordance with the dues transmittal agreement.
☺ Do have proper supporting written documentation for every check written or wire transfer made. Make sure every disbursement is authorized. (Documentation includes invoices, receipts, approved minutes of the board of directors, etc.)
☺ Do require 2 signatures for every check written.
☺ Do reconcile the bank accounts monthly.
☺ Do have an Internal Audit Committee review the financial records on a quarterly basis. Do have an annual audit or review by an independent certified public accountant if your internal policies require it.
☺ Do comply with federal and state laws and regulations with respect to tax-exempt status. When in doubt, consult your accountant. Association funds should only be used for the exempt purpose.
☺ Do file all federal and state reports on time. This includes IRS Form 990, 1099’s, payroll tax reports, etc.
☺ Do formally adopt and implement policies regarding (a) conflicts of interest, (b) code of ethics, (c) document retention, (d) travel reimbursement policies, check signing authority, and (e) financial and operational standards.

Quick Reference Don’t’s

 Don’t give out members’ personal information (i.e. social security number, home address, e-mail address, telephone number, health matters, etc.) to unauthorized persons. This information is confidential and subject to privacy laws.
 Don’t spend more than you make. Do not operate “in the red”.
 Don’t spend NEA/LAE/SAE membership dues for local association activities. The local association is a trustee of these funds and is not entitled to use the funds.
 Don’t conduct transactions for “private inurement” (for the benefit of an insider).
Don’t deposit association funds into personal bank account.

Don’t accept “post-dated” checks.

Don’t spend funds for activities not approved by the membership.

Don’t write checks for “Cash”.

Don’t sign blank checks (missing payee and/or amount).

Don’t sign checks payable to oneself.

Don’t withdraw cash from the association’s bank accounts.

Don’t pay bills from statements. Require vendors to provide an original invoice. Be careful of copies and faxes to avoid duplicate payment.

Don’t “co-mingle” PAC funds with the association’s general funds.

Don’t destroy association records until after the retention timeline has passed.

**Fraud**

**What is fraud?**

- Theft of funds belonging to the local or region
- Outright misappropriation
- 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 SEA-NEA
- Improper membership reporting
- Failure to pay 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 an incentive 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.
- Some sides of the triangle can be stronger than others. If an “honest” person has opportunity and a strong incentive, it can become relatively easy to take the next step and rationalize a fraudulent act. However, if opportunity is prevented due to strong controls and oversight, even if
A person has a strong incentive and rationalization, it will be very difficult for him/her to commit fraud.

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

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

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

Why does fraud go unnoticed?

With occasional exceptions, there is nothing new in terms of fraudulent or inept business practices. Even schemes based on new technology are usually just variations of time-honored frauds from the past. There is a wealth of literature on this topic including many theories as to why people commit fraud and the common warning signs of inappropriate business practices.

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

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

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

The Appendix lists some signs that can indicate problems with the control environment. These are grouped in a manner that we’re all familiar with: RED for “severe”, ORANGE for “high”, and YELLOW for “elevated”.
What to do when signs are detected

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

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

Banking Relationship

The concept of having two (or more) signatures for large withdrawals provides a measure of protection against unexpected, large, or illegal withdrawals of cash. When establishing a bank account and/or setting up authorized signers on the bank account(s), the Association should require dual signatures. However, some banks are no longer requiring dual signatures regardless of the bank signatory cards.

Will your bank afford such protection to your account? It depends. Branches of certain large banks will not permit dual signatures on bank accounts. Smaller banks are still permitting such dual signature arrangements. Some banks are stating that two-signature requirement accounts will become one-signature requirement accounts which means any account providing for two or more signatures required for withdrawals will require the signature of only one account holder on withdrawals.

Regardless of the bank’s policy, the Association can still implement a policy of requiring dual signatures. Adherence to this policy should be verified as part of the audit function to ensure canceled/cleared checks have two signatures as required.

One area that is often overlooked is a line of credit for the association. Normally this is not needed, but if some crisis would arise such as a prolonged strike or large legal bills, a line of credit to pay bills would take much pressure off the association’s leadership. After developing a good working relationship with a bank or credit union, you may approach an officer of that bank/credit union about developing a line of credit. Briefly, this is an amount of money that can be borrowed over a period of time without having to fill out loan applications each time money is needed. A line of credit makes the money immediately available for use. The interest paid varies and is determined by the bank’s prime lending rate at the time the loan is taken.

Fidelity Bond Program

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

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

Beginning October 1, 2003, for insurance claims filed after this date, state affiliates will fund a $1,000 deductible per loss. No deductible will be charged for losses that arise in the eleven states where our state affiliates are subject to the provisions of the Landrum-Griffin Act (Florida, Illinois, Maine, Michigan, Minnesota, Montana, New York, Ohio, Pennsylvania, Rhode Island, and Texas).

- Investigative Cost Coverage

The Fidelity Bond Program covers “Investigative Costs” up to $25,000 for any claim involving a loss greater than $100,000 that is covered under the FB secondary layer Employee Dishonesty Policy. All other investigative costs—fore claims of $100,000 or less or investigative costs exceeding $25,000 for claims over $100,000—are borne by the insured. Investigative costs coverage is further limited to reasonable expenses incurred by the Insured in establishing the existence and amount of any direct loss covered under the policy.

Limitations of Coverage:

Coverage is limited to losses occurring during the period in which the bond has been in effect with the underwriter. Fidelity losses occurring prior to the establishment of the NEA Fidelity Bond insurance policy with American Insurance Group on October 1, 2003, but discovered after the effective date of the bond, are not covered. Coverage applies to NEA and its affiliates; coverage excludes subsidiaries, related entities (e.g. trusts, charitable organizations), or outside organizations where officers and/or staff may be participants. Coverage is limited to Association funds. Now under Chartis (September 1, 2009), National Union continues to insure NEA's FB policies.

Administration:

NEA administers the NEA Fidelity Bond Program on behalf of state and local affiliates. Claims should be filed in writing with the Legal Services Programs Office of the NEA Collective Bargaining and Member Advocacy Department as soon as a loss is discovered.

For additional information about the NEA Fidelity Bond Program, please contact NEA Collective Bargaining and Member Advocacy, Legal Services Programs at (202) 822-7080.

<table>
<thead>
<tr>
<th>Manager, Legal Services Programs</th>
<th>M. Lynn Feakes</th>
<th>202-822-7026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Insurance/Risk Management Specialist</td>
<td>Marilyn Hutton</td>
<td>202-822-7739</td>
</tr>
<tr>
<td>Program/Policy Specialist/Analyst</td>
<td>Jacque Thompson</td>
<td>202-822-7086</td>
</tr>
</tbody>
</table>
VI. Membership Procedures

Membership Information and Processing

The membership department in each state affiliate issues an annual Membership Enrollment and Processing Guide prior to the start of the membership year. These manuals are designed to provide the local association members working in membership processing with detailed information on:

- State and local membership dues
- Utilizing the Membership System (see IMS below)
- Completing membership enrollment forms
- Updating members’ records
- Transmitting dues
- Processing and transmitting agency fees
- Agency fee rebates (*)

Since these manuals serve as comprehensive and detailed instructions for membership and agency fee processing, it is recommended that the local association members working in these areas thoroughly familiarize themselves with the details of the manuals. This will ensure the timely and accurate processing of membership and agency fee enrollments and transmittals. When the manuals arrive, study their contents thoroughly. If you have any questions, please contact your state Membership/Accounting Department.

Interactive Membership Services (IMS) - The IMS system is comprised of several subsystems. The Individuals subsystem is used to view and maintain basic individual information about a member or potential member, such as name and address. The Affiliates subsystem is used to view and maintain basic affiliate information, view and maintain role assignments and to link organizations. The Membership subsystem is used to maintain prior, current, and future year memberships for an individual, and maintains all information connected to a membership. Additional subsystems are Employer/Work Location, Roles, Utilities, Funds Receivable, Electronic Funds Transfer, Government Relations, and Reports. IMS is available to all affiliates. NEA provides technical assistance for IMS.

(*) Agency Fee Payer pays a service fee for services related to contract administration, grievance processing and other matters related to terms and conditions of employment.

Included in this section are 1) some significant NEA membership governing policies, 2) remittance of political contributions, and 3) required disclosure language on written communications which solicit funds.

Dues Transmittal and Enforcement Procedures – NEA (Bylaw 2-9)

NEA Dues Transmittal Policy:

- NEA (the Association) shall enter into contracts with state affiliates governing the transmittal of Association dues. State affiliates shall have the full responsibility for transmitting Association dues from local affiliates on a contractual basis. Local affiliates shall have the full responsibility for transmitting state and Association dues to state affiliates on a contractual basis. Standards and contracts for transmitting dues shall be developed between the state affiliate and each local affiliate.

- A local shall transmit to a state affiliate and a state affiliate shall transmit to the Association at least forty percent (40%) of the Association dues receivable for the year by March 15 and at least seventy percent (70%) of the Association dues receivable for the year by June 1; the percentage shall be based upon the last membership count prior to January 15, and upon a membership year beginning September 1, unless the contracted transmittal schedule stipulates otherwise.
• A local or state affiliate which becomes delinquent in its contracted transmittal schedule by more than thirty (30) days shall be assessed a penalty of two percent (2%) per month on the overdue balance.
It is crucial that every Local Association collecting contributions for The NEA Fund for Children and Public Education (“The NEA Fund”) is able to associate a name with every dollar collected, and that it transmits those contributions and the contributor information to The NEA Fund within the required time period. If contributions raised for The NEA Fund are not attributed to individual members and are not transmitted to The NEA Fund within the required time period, those contributions may not be used in connection with federal elections or elections in many states. Therefore, all fundraising activity should be conducted with the following two goals in mind:

- Collect the name, address, employer, occupation, date of contribution, and amount of contribution for every person who makes any contribution to The NEA Fund.
- Capture every contribution to The NEA Fund at the first point of receipt and transmit that contribution to The NEA Fund within the required time period.

**General Rules**

- **What is a Solicitation?**

  Any communication that requests contributions for or encourages support for (e.g., provides information on how to give) The NEA Fund is a solicitation. Such communications may be made only to members and Association executive and administrative staff and their families.

  Communications that solicit contributions for The NEA Fund may not be made to the general public. This is true even if the communication is addressed to NEA members only (e.g. an advertisement on a publicly accessible Web page asking NEA members to contribute to The Fund). However, the NEA or an affiliate may publish an article on its publicly accessible Web site describing the candidates that have been supported by The NEA Fund and offer a link to a members-only page where a contribution to The NEA Fund is requested.

- **Voluntary Contributions Only**

  All contributions to The NEA Fund must be voluntary. “Voluntary” means that the contributions may not consist of dues, fees, or other moneys required as a condition of membership in the NEA or a Local Association, or as a condition of employment. This is true even if the dues are refundable at the request of the member. “Voluntary” also means that contributions may not be secured by physical force, job discrimination, financial reprisal, or threats of such actions. A member cannot be forced to give to The NEA Fund; he or she must choose to do so voluntarily.

  Each solicitation for a contribution to The NEA Fund must inform members that they are not required to give to The NEA Fund, that they have the right to refuse to contribute without reprisal, and that contributing or not contributing will neither benefit nor disadvantage them with regard to their membership or employment status. See **Part A** for required disclaimer language.

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1 The NEA Fund for Children and Public Education has three accounts: the Federal account, which is used to make contributions to and expenditures on behalf of federal candidates and is regulated by the Federal Election Campaign Finance Act of 1971, as amended (“FECA”); and a non-federal itemized account and a non-federal unitemized account, which are used to make contributions to and expenditures on behalf of non-federal (State and Local) candidates and are regulated by State campaign finance laws where applicable. The non-federal itemized account contains the name, address, employer, occupation, date of contribution, and amount of contribution for each contributor, but for various reasons, these contributions do not qualify for the federal account. The unitemized account lacks this information for each contributor.
• Only Members, Association Executive, Administrative Staff and their Families

The NEA and a Local Association may only solicit members, Association executive and administrative staff, and the families of each group for voluntary contributions to The NEA Fund. “Executive and administrative” staff means employees paid on a salary basis having policy-making, managerial, professional, or supervisory responsibilities. Association employees who are represented by a labor organization are not solicitable unless they are also members of the NEA or a Local Association.

Furthermore, the NEA Fund may not receive contributions from “foreign nationals,” meaning individuals who are neither U.S. citizens nor lawful permanent residents. For example, a member who is employed in the U.S. under a temporary work visa (such as a J-1 or H-1B visa) cannot contribute to the NEA Fund.

• No Solicitation of the Public

The NEA and a Local Association may not solicit the general public (i.e., non-members, non-staff) to make contributions to The NEA Fund. This rule applies to every type of fundraising for The NEA Fund.

If the NEA or a Local Association accidentally solicits a person who is not a member, an Association executive or administrative staff person, or a family member of either group, The NEA Fund will not be liable for violating this provision if the error is corrected immediately by refunding the contribution in question.

A communication will not be considered to have solicited non-members if the communication is circulated to members and/or Association staff and a very limited number of persons outside those groups. Generally, if the total circulation of a communication containing a solicitation for The NEA Fund includes 5% or fewer non-members, the outside membership solicitation will be treated as “incidental” and will not be held in violation of the Federal Election Campaign Act (FECA).

• Cash Contributions

The NEA Fund may not accept a cash contribution of more than $100 in the aggregate from any single member or Association staff person at any one time (or per fundraising event). The limit on cash contributions does not apply to checks or credit card contributions. The maximum amount any individual can donate is $5,000 per calendar year.

Rules Governing Fundraising

• Fundraising Events

Voluntary contributions for The NEA Fund may be raised through fundraising events such as auctions, give-aways, dances, dinners, etc. Solicitations for such fundraising events should be directed solely to members, Association executive and administrative staff, and the families of each group and not to the general public. Likewise, tickets to the fundraising event may only be sold to the same group.

All communications relating to the event (including tickets, flyers, signs at a convention booth, etc.) must contain the disclaimer language described in Part A. Persons working at a fundraising event or

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2 Lotteries or raffles, in which a prize is awarded wholly or in part by chance and participants must make a contribution to the Fund in order to participate in the drawing, are prohibited under many State “gaming” laws. Instead of a lottery or raffle, hold a give-away in which members can participate in the drawing regardless of whether or not they make a contribution or a silent auction in which members pay a fixed fee to enter the auction and the prizes are awarded to the highest bidder. The give-away should be treated as a political event and tied directly to the NEA Fund and its activities. In some states (e.g., Florida) even some types of give-away may be prohibited by State law. Check your state law before conducting a give-away.
booth should be instructed in writing not to sell tickets to persons who are not members, Association staff, or the families of each group.

• **Who May Pay For Fundraising Events/Items?**

When NEA or one of its state or local affiliates raises voluntary contributions for The NEA Fund, it is called a “collecting agent”. A collecting agent may pay any or all of the costs of raising voluntary contributions for The NEA Fund from its general treasury funds, subject to the “one-third” rule described below.

Members, Association executive and administrative staff, and their families may also donate items to be used to raise money for The NEA Fund. However, if the items donated have more than a nominal value (e.g., store-bought rather than hand-made), the individual’s donation of a fundraising item constitutes an in-kind contribution to The NEA Fund in the amount of the value of that item. Such in-kind contributions must be reported to The NEA Fund. Non-members may not donate items to be used to raise contributions for The NEA Fund.

• **Sale of Fundraising Items**

A State or Local Association may sell fundraising items (e.g., t-shirts, bags, key chains, buttons etc.) to raise voluntary contributions for The NEA Fund. Since the sale of the items is designed to raise contributions for The NEA Fund, only members, Association executive and administrative staff, and their families may be asked to buy such items.

The full amount raised from the sale of fundraising items must be transmitted to The NEA Fund. A collecting agent may pay any or all of the costs of raising voluntary contributions for The NEA Fund from its general treasury funds, subject to the “one-third” rule described below. A collecting agent may not net its costs or the cost of its fundraising prize from the amount raised, nor can a State or Local Association’s PAC funds be used to pay the cost of the fundraising items.

• **One-Third Rule**

When using entertainment (e.g., dinners, dances) or the sale of fundraising items (direct sale of fundraising items such as t-shirts, baskets, auctions, giveaways, etc.) to raise money for The NEA Fund, the FECA requires that the cost of the item or entertainment, if it is subsidized with general treasury funds, be no more than one-third of the amount raised for The NEA Fund. This is called the “one-third” rule. For example, if a Local Association spends $10 from its general treasury fund to buy a fruit basket, which it then sells to members and their families to raise contributions to The NEA Fund, the fruit baskets must be sold for at least $30. **If your Local Association buys a car and then sells tickets for a give-away to raise contributions for The NEA Fund, the tickets must be priced at an amount that will generate at least 3 times the cost of the car.** If your Association’s fundraising revenues do not total at least 3 times what it spent for a fundraising event or item, The NEA Fund must reimburse your Association for the difference between the amount spent on the fundraising event or item and one-third of the amount raised.

• **No Netting Out**

The entire amount raised at a fundraising event constitutes a contribution to The NEA Fund and must be transmitted to The NEA Fund. A State or Local Association may not “net” out its costs for entertainment or fundraising items against the amount raised.

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3 To comply with federal tax regulations, fundraising items sold to raise money for the NEA Fund must contain a “political message” tying the item to the NEA Fund’s political agenda, not simply the Local Association’s name. For example, fundraising items should, at a minimum, include the logo or name of the NEA Fund for Children and Public Education and some sort of political message such as “Teachers Vote” or “I Vote for Better Schools”.
• Payroll Deduction

If state law allows, members may be solicited to make payroll deduction contributions to The NEA Fund. Payroll deductions for The NEA Fund must be based on a signed membership form or authorization card containing all of the disclaimer language described in Part A. A payroll deduction authorization may stay in effect indefinitely; however, members must be able to cancel their payroll deduction authorization at any time through their employer. Reverse check-off (e.g., a system by which contributions are automatically deducted for a PAC unless the member objects) is not permitted as a method for raising contributions for The NEA Fund, even though it is permissible under some states’ laws for state or local PACs.  

• Internet Solicitations

A State or Local Association may solicit voluntary contributions for The NEA Fund on a Web site sponsored by the Association, provided that the portion of the Web site that solicits contributions for The NEA Fund is accessible only by members, Association executive and administrative staff, and their families (e.g., it is password protected). Internet solicitations for The NEA Fund must contain the required disclaimer language. See Part A.

The NEA Fund has a Web site (http://neafund.org/) through which members can make one-time credit card or continual (monthly) credit card contributions.

• Electronic Fund Transfers (EFT)

Members, Association executive and administrative staff, and their families may contribute to The NEA Fund through EFT. Under this system, a member signs an authorization form directing his or her bank to make a transfer of a designated amount to The NEA Fund on a monthly basis. The bank then transfers the contribution directly to The NEA Fund. All EFT authorization forms for The Fund must contain the required disclaimer language. See Part A. For additional EFT information, contact NEA Membership Management Services (202/822-7065).

**NEA Fund for Children and Public Education Disclaimer Language [Part A]**

The following disclaimer language must be included on every solicitation (e.g., payroll deduction authorization cards or membership forms, give-away tickets, auction forms, dinner or entertainment tickets, signs advertising fundraising items for sale) used to raise contributions for The NEA Fund:

The National Education Association Fund for Children and Public Education collects voluntary contributions from Association members and uses those contributions for political purposes, including, but not limited to, making contributions to and expenditures on behalf of friends of public education who are candidates for federal office. Only U.S. citizens or lawful permanent residents may contribute to the NEA Fund. Contributions to The NEA Fund for Children and Public Education are voluntary; making a contribution is neither a condition of employment nor membership in the Association, and members have the right to refuse to contribute without suffering any reprisal. Although The NEA Fund for Children and Public Education requests an annual contribution of $20.00 this is only a suggestion. Any member may contribute more or less than the suggested amount, or may contribute nothing at all, without it affecting his or her membership status, rights, or benefits in NEA or any of its Associations.

Contributions or gifts to The NEA Fund for Children and Public Education are not deductible for federal income tax purposes. Federal law requires us to use our best efforts to collect the name, mailing
address, occupation, and the name of employer for each individual whose contributions aggregate in excess of $200 in a calendar year. Federal law prohibits The NEA Fund for Children and Public Education from receiving donations from persons other than members of the NEA and its affiliates and their immediate families. All donations from persons other than members of NEA and its affiliates and their immediate families will be returned forthwith.

The disclaimer should be printed on the front of a solicitation in the same size print as the remainder of the solicitation message.

If a State or Local Association is soliciting voluntary contributions for its own PAC as well as The NEA Fund at the same time, it should use the disclaimer language for joint fundraising. See Part B.

Collecting and Transmitting Contributions

- Collecting Agents

A Local or State Association or individual member collecting voluntary contributions for The NEA Fund is called a “collecting agent” under the FECA. A Local or State Association which acts as an NEA Fund collecting agent is subject to the Act’s rules on solicitation (described above) as well as the rules on timely transmittal of contributions and recordkeeping regarding contributors. In addition, a Local or State Association must comply with IRS requirements when collecting and transmitting voluntary contributions to The NEA Fund, or it may be taxed on those contributions. In other words, while a Local or State Association is not a “political committee” subject to the registration and reporting requirements of the FECA, it must comply with the rules for raising and transmitting voluntary contributions to The NEA Fund. A collecting agent may pay for the expenses of soliciting, collecting, and transmitting voluntary contributions to The NEA Fund from its general treasury fund without such payments being treated as contributions to The NEA Fund.

- Timely Transmittals

Local or State Associations that serve as “collecting agents” for The NEA Fund must transmit members’ voluntary contributions and contributor information to The NEA Fund in a timely manner. Individual contributions of $50 or less must be forwarded to the Fund within 30 days of the date that the contribution is received by the Local or State Association or its agent (e.g. staff person). Individual contributions over $50 must be forwarded to The NEA Fund within 10 days of receipt. This timing rule applies to the date the contribution is first received by the Local or State Association collecting voluntary contributions for the Fund. If the Local or State Association receives a member’s payroll deduction contribution from an employer or a member’s contribution check to The NEA Fund, the Local or State Association is responsible for transmitting that contribution to The NEA Fund within 10 or 30 days from the date it receives the contribution, depending on the amount. Don’t forget -- the Local or State Association must transmit the contributor information at the same time as it transmits the contributions so that the information can be recorded and reported properly.

Why does it matter?

If contributions and their accompanying donor information are not transmitted to The NEA Fund within the required time period, those contributions may not be used in connection with federal elections.

- Transmittal Procedures

1 - Fundraising Events and Activities

Contributions raised for The NEA Fund through a State or Local Association’s fundraising events and activities can be transmitted to The NEA Fund along with the required contributor information using The NEA Fund’s “small envelope, big envelope” system. This system makes it easy for the State or Local Association to collect and send the contributions that it has collected along with contributor information.
directly to The NEA Fund so that those contributions may be received within the time period required by federal law.

The goal is to collect contributions and contributor information gathered at an event or through member-to-member appeals and send them directly to The NEA Fund. Each contribution must be collected in a small contribution envelope; all small envelopes are placed in a big transmittal envelope to be conveyed to the NEA. This transmittal system can be used for Pre-RA (Representative Assembly) fundraising, State RAs, member-to-member appeals at meetings, or any type of event such as dinner dances, auctions, and leadership conferences. The envelopes will be created, printed and distributed to all Associations by the NEA. To obtain these envelopes, or to get answers to any questions about the envelopes, Associations should contact Emily Patzer (epatzer@nea.org or (202) 822-7319).

**How does it work?**

Before the event, a State or Local Association that will be holding an NEA Fund fundraising drive or event will request a fundraising kit(s) that includes small and large envelopes. The State or Local Association should give a fundraising kit and the transmittal instructions to each person who will be doing the collections (“the collector”). The collector keeps the large envelope(s) and distributes a small envelope to each member making a contribution. If they are making a contribution:

**By Check** - The member writes a check payable to “The NEA Fund for Children and Public Education,” puts it in the small envelope, and fills out the contributor information on the outside of the envelope. Checks can be written in any amount up to $5,000.

**By Credit Card** - The member fills out the section for credit card information on the envelope and places it inside the envelope. The member also fills out the contributor information on the outside of the envelope. Members can make both one-time and continual (monthly) contributions via credit card. Credit card contributions may be in any amount up to $5,000.

**By Cash** – The member puts his or her money in the small envelope and fills out the contributor information on the outside of the envelope. Note that the Fund cannot accept cash contributions over $100 in the aggregate from any one contributor from any single event (e.g., the NEA RA).

The member gives the small envelope with his or her contribution inside and the information filled out on the outside to the collector. Each week or immediately after the fundraising event, the collector puts all the small envelopes he or she has received that week into a large envelope. The collector fills out the Large Envelope Transmittal Form and puts it in the large envelope along with all the small envelopes and sends it to the NEA at the address printed on the large envelope. An overnight shipping address is on the transmittal form in the event the contributions need to be sent immediately. Collectors should only transmit small envelopes collected at a fundraising drive or event directly to The NEA Fund. Do not deposit these contributions in the State or Local Association’s general fund, an individual’s personal account, and do not forward them to the State Association for transmittal to The NEA Fund.

**What can you do to ensure the information is complete and your members don’t have to fill out so much information?**

You can create labels from a registration list of conference attendees and put them on the small envelopes in advance so that a member does not have to fill out his or her name and address each time a contribution is made. Make sure the label contains at least the member’s Name, State, Address and the last four digits of his or her Social Security Number or NEA Member ID Number so that each contribution is credited to the correct person.
Contributions made through payroll deductions are one of the most critical and complicated methods of fundraising. The recordkeeping and transmittal system below is one possible process. NEA will work with Associations to tailor the process to fit your individual needs.

How does it work?

Member sign up to make contributions to The NEA Fund through payroll deduction. Association sends payroll deduction authorization form to employer.

The State or Local Association must record The NEA Fund obligation in Interactive Membership System (IMS) and/or internal system, and must update the changes (additions and deletions) as necessary.

Employer deducts NEA Fund contribution from member’s paycheck and sends check to Association.

State or Local Association deposits check in a bank account, if possible.

The Association reconciles the names and the amount of the Fund contribution from the employer.

Within 10 or 30 days of date money received from employer, Association sends a check and contributor information for NEA Fund contributions received within that month to the NEA. It is vital that this process be completed within 10 days (for contributions over $50) or 30 days (contributions of $50 and less) from the date upon which your Local Association receives the employer’s payroll deduction check. Failure to meet this deadline will mean that the funds cannot be used in connection with federal elections and will create a tax liability for the Association if the Association is depositing the employer’s check into its general treasury fund.

NOTE: The NEA Fund will be asking each Association with members contributing by payroll deduction to inform The NEA Fund of its payroll frequency (i.e., do members get paid on a weekly, bi-weekly, monthly, or some other basis, and are members paid over 6 months, 9 months, 12 months, or some other variation?). There is a field for this information to be entered in IMS.

Detailed Payroll Deduction Instructions

NEA General Counsel’s office should be consulted when an Affiliate is creating or revising an NEA Fund payroll deduction form to ensure that all required donor information is included.

Individual member signs a payroll deduction authorization form (usually as a part of a membership form) containing the required disclaimer language authorizing a voluntary contribution to The NEA Fund. (See sample payroll deduction authorization form.)

The member gives the payroll deduction authorization form to the Local Association. The Local Association that receives the authorization form enters the member’s NEA Fund contribution obligation into IMS or its own electronic contribution tracking system.

If you do not use IMS

If the Local Association maintains its own NEA Fund contributor records in an electronic contribution tracking system, it should enter the contributor information (name, date, amount, employer and occupation) for each contribution received from the employer into your own system.
The Local Association should then send an electronic spreadsheet of all members with NEA Fund payroll deductions, along with the amount and frequency of such deductions for each member and the Member’s ID# or the last four digits of the member’s Social Security Number to The NEA Fund every month.

After the Local Association enters The NEA Fund obligation information into IMS, it should send a copy of the member's NEA Fund authorization form to the employer. The employer deducts The NEA Fund contribution from a member’s paycheck and sends a check to the member’s State or Local Association, as appropriate.

Some employers send two separate checks, one for NEA Fund contributions and one for dues; others send a combined check containing The NEA Fund contribution, membership dues and Local or State PAC contributions.

If the employer sends a separate check for The NEA Fund and dues, the State or Local Association should send The NEA Fund check, along with the contributor information, directly to the NEA. The State or Local Association should not deposit the check into a local account.

If the employer sends a combined check containing NEA Fund contributions as well as dues, etc., the State or Local Association should deposit that check into a non-interest-bearing transmittal account or a PAC account, if it has one, or into its general treasury fund account provided it quickly segregates The NEA Fund contributions from the dues, as explained below.

Local Associations that receive payroll deduction contributions for The NEA Fund from an employer should transmit those funds directly to The NEA Fund, not to the State Association for subsequent transmittal to The NEA Fund.

As soon as the State or Local Association receives an employer’s check, it will compare the amount listed as an NEA Fund deduction for each member on the employer’s remittance form with the information in I&A or in the state or local affiliate’s database. If the employer does not send a remittance form showing how much the employer has deducted for each individual member, the State or Local should ask for such information to be provided with each payroll deduction check.

Within the 10-day or 30-day timeline, the Local Association should write a check to The NEA Fund for the total amount of The NEA Fund contributions that it has received from the employer for that month. The Association should use a check from the account into which the payroll deduction check was deposited if that check contained both dues and NEA Fund contributions and the contributions have not been transferred to a separate segregated account.

If the Local receives a payroll deduction contribution for a member who is not on IMS system or state or local affiliate database, send the contribution to The NEA Fund with a notation on the accompanying donor list that the donor could not be verified. Prior to the following month’s transmittal to The NEA Fund, the Local should seek to verify whether or not that member has signed a payroll authorization card authorizing a contribution to The NEA Fund. If the Local does verify that the member has signed an NEA Fund authorization card, the Local should enter the member into the IMS system.

If the Local does not receive a contribution from an employer for a member whose name appears on IMS database or state or local association database, the Local should check with the employer to see why no contribution was deducted.

The Local Association should mail the check to The NEA Fund for the total NEA Fund contributions for that month, along with a copy of the verified contributor data in either hard copy or electronic format.

Electronic Format - (preferred method for transmitting payroll deduction donor information) Transmit a copy of the verified contributor information in any electronic format (e.g. Excel, comma quote delimited, ASCII, etc.) directly to The NEA Fund via the email address neafund@nea.org. At the same time, send the check to The NEA Fund for Children and Public Education, P.O. Box 64702,
Hard Copy – If an electronic copy is not available, a hard copy of the donor contributor information and the check may be sent to The NEA Fund for Children and Public Education, P.O. Box 64702, Baltimore MD 21264-4702. The roster will function as a transmittal form. On the roster, enter the total amount received for The NEA Fund, any amounts or contributors that cannot be verified, the date the employer’s check was received by your Local and the date the transmittal was made to The NEA Fund.

It is vital that this process be completed within 10 or 30 days from the date upon which the Local receives the employer’s payroll deduction check. Failure to meet this time deadline will mean that the funds cannot be used in connection with federal elections, and if the Local is depositing the employer’s check into its general treasury fund, it will create a tax liability for the Local.

3 - Electronic Funds Transfer/Easy Pay Contribution Transmittal System

If a Local Association wants to collect contributions for The NEA Fund in a manner that does not require the Local to keep detailed records of those contributions and contributors, it may want to consider Electronic Funds Transfer (EFT) as a means of collecting and transmitting members’ voluntary contributions to The NEA Fund. For help with EFT please contact the NEA Financial and Membership Services department.

What is Electronic Funds Transfer?

EFT is an effective fundraising system in which NEA Fund contributions are collected by deducting voluntary contributions directly from a member’s bank account via an electronic transfer or “easy pay” system. The goal is to have The NEA Fund’s bank collect a member’s contribution and contributor information directly from the member’s bank.

How does it work?

A member signs two copies of an EFT approval form. The member or the soliciting person sends both copies of the EFT form to the Local/State Association.

The Local Association keeps one copy of the EFT form and enters the information regarding the member’s EFT contribution into the IMS (EFT) system.

Once a month, on the basis of the information in IMS, NEA’s Financial and Membership Services department prepares an electronic file of EFT contributors to The NEA Fund and a separate list of EFT contributors to the Local Association PAC, if appropriate, and instructs The NEA Fund’s bank (Bank of America) to withdraw the agreed upon contributions from each EFT contributor’s bank account for each PAC.

Bank of America withdraws the funds directly from a member’s bank account and deposits the contribution into The NEA Fund’s account. Bank of America also withdraws the funds directly from a member’s bank account for the Local Association PAC and transmits those funds to the Local Association PAC’s bank account.

Bank of America sends a transmittal document to The NEA Fund showing a confirmation that the withdrawal has been made for each member on the list of EFT contributors, or that a contribution withdrawal has been rejected.

Transmittal Requirements

Cash: A Local Association that receives a cash contribution for The NEA Fund may transmit that contribution to the Fund in one of the following ways:
By using the big and little envelopes prepared by The NEA Fund, as described above;

By depositing the cash contribution into a separate transmittal account or non-federal PAC fund and writing a check to The NEA Fund on that account (as discussed below); or

By using the cash contribution to buy a cashier’s check or money order payable to The NEA Fund for Children and Public Education, and sending that check or money order to The NEA Fund along with a list of the contributor(s), the amount(s) given, and other required contributor information. (Use little/big envelope system)

Transmittal Account: The Local Association may establish a non-interest-earning transmittal account to be used solely to transmit contributions that have been collected for The NEA Fund. All contributions received for The NEA Fund should be deposited promptly into the transmittal account, and the Local Association should send The NEA Fund a check drawn on that account, payable to The NEA Fund for Children and Public Education within 10 or 30 days, whichever is appropriate.

Non-Federal PAC Account: If the Local Association has a non-federal PAC account, it may use it to transmit contributions to The NEA Fund. Contributions collected for The NEA Fund should be deposited promptly into the non-federal PAC account. A check drawn on that PAC account in the amount of The NEA Fund contributions should be sent to The NEA Fund within 10 or 30 days, whichever is appropriate. The Local Association must keep separate and accurate records of The NEA Fund contributions that it receives and deposits into its non-federal PAC account.

General Treasury Fund Account: If the Local Association receives a contribution for The NEA Fund in the form of a combined payment, such as a payroll deduction remittance check from an employer containing dues and an NEA Fund contribution, the Association may deposit that check into its general treasury fund in order to split up the monies. If the Association does this, it must write a check to The NEA Fund in the amount of The NEA Fund contributions included in the employer’s check and send that check and the required contributor records for those contributions to The NEA Fund no later than 10 or 30 days, whichever is appropriate from the date your Association received the employer’s check. (See paragraph on payroll deduction) Failure to do so will create a tax liability for the Association under IRS rules and will make it impossible for The NEA Fund to deposit the contributions into its federal account.

- Timing of Transmittals

Regardless of the method used, the contributions must be transmitted to The NEA Fund within 10 days (contributions over $50) or 30 days (contributions $50 or less) from the date the contributions are received by the Local Association.

- Contributor Information

Local Associations collecting voluntary contributions for The NEA Fund (i.e., collecting agents) are required by law to collect certain information about each individual who makes a contribution. In order for The NEA Fund to be able to use the voluntary money it receives in the most effective way possible, the Local Association must provide the following information to The NEA Fund with each contribution:

1. Name of contributor;
2. Mailing address of contributor;
3. Date and amount of the contribution made by the contributor;
4. Occupation of the contributor;
5. Employer of the contributor.

Providing this information for each contributor will enable The NEA Fund to use members’ voluntary contributions to support the maximum number of recommended candidates, federal and state.
Contributor information may be transmitted to The NEA Fund in a variety of ways: by using The NEA Fund’s small contribution envelopes which ask for that information; by using the payroll deduction remittance information provided by an employer and matching that information with a roster of members on payroll deduction in the I&A system or the state or local affiliate database; by inputting contributor information into an Excel spreadsheet and forwarding it to The NEA Fund; or by transferring an electronic file to neafund@nea.org.

**Joint Fundraising for the NEA Fund for Children and Public Education**

Joint fundraising is fundraising intended to raise voluntary contributions from members and their families for both The NEA Fund and for a local association’s non-federal PAC. Joint fundraising may be done through payroll deduction, EFT, or fundraising events.

All joint fundraising solicitations (including payroll deduction forms, EFT forms, and solicitation materials used at fundraising events) for The NEA Fund must contain the disclaimer language required by federal law for contributions to The NEA Fund. (See sample joint fundraising language below).

In addition, a joint fundraising solicitation must inform the contributor: 1) that he or she is giving a contribution to The NEA Fund and to a State or Local Association PAC; and 2) that a specific percentage or amount of a member’s contribution will be given to The NEA Fund and a specific percentage or amount will be given to the State or Local PAC. (See sample joint fundraising language below). Joint fundraising solicitations must also contain all of the disclaimer language required by a state law for contributions to the State or Local Association’s non-federal PAC.

**What should you do if you are conducting (or plan to conduct) joint fundraising for The NEA Fund and your state or local PAC?**

Contact Amy Kurtz (Manager, NEA Fund) in the NEA Government Relations Department (822-7332 or akurtz@nea.org) to advise her that your Association is engaging in joint fundraising for The NEA Fund. E-mail a copy of your joint fundraising payroll deduction, EFT, or event solicitation form to Amy so that the NEA may enter that information into its PAC contribution tracking system. Follow the appropriate instructions below for the type of fundraising your state or local association is planning.

- **Joint Fundraising Solicitation Language (PART B)**

The following disclaimer language should appear on all joint fundraising solicitations, modified to reflect the name of your State or Local Association PAC for which contributions are being raised along with contributions for The NEA Fund and the correct percentages or amounts of the joint fundraising split between The NEA Fund and your State or Local Association PAC. Also, this language should be modified to include any disclaimer language required by your state law to be on a solicitation for your State or Local Association PAC. (Please consider contacting the NEA General Counsel’s office for assistance in drafting joint fundraising language to ensure that both federal and state language is correct.)

The National Education Association Fund for Children and Public Education and the [____Association Political Committee] collect voluntary contributions from Association members and use those contributions for political purposes including, but not limited to, making contributions to and expenditures on behalf of friends of public education who are candidates for federal, or in the case of the [____Association PAC], state and local office. Only U.S. citizens or lawful permanent residents may contribute to the NEA Fund for Children and Public Education and the [____Association PAC]. Contributions to The NEA Fund for Children and Public Education and the [____Association PAC], are voluntary; making a contribution is neither a condition of employment nor membership in the Association, and members have the right to refuse to contribute without suffering any reprisal. Although The NEA Fund for Children and Public Education requests an annual contribution of $15.00 this is only a suggestion. A member may contribute more or less than the suggested amount, or may contribute nothing at all, without it affecting his or her membership status, rights, or benefits in the NEA or the [____Association].
I understand that I am making a joint contribution to The NEA Fund for Children and Public Education and the [_____Association PAC], and that __% (or $__) of my contribution will be given to The NEA Fund for Children and Public Education while ___% (or $___) will be given to the [_______Association PAC].

Contributions or gifts to The NEA Fund for Children and Public Education and the [___Association PAC] are not deductible for federal income tax purposes. Federal law requires us to use our best efforts to collect the name, mailing address, occupation, and name of the employer of individuals whose contributions aggregate in excess of $200 in a calendar year. Federal law prohibits The NEA Fund for Children and Public Education from receiving donations from persons other than members of the NEA and its affiliates and their immediate families. All donations from persons other than members of NEA and its affiliates and their immediate families will be returned forthwith. [Add any disclaimers required by your state law]

__________________Signature                         Date: ________________

Name: ______________   Address: __________________________

Occupation: __________________ Name of Employer: ___________________

SSN: _____________   or     NEA Member ID #_______________________

Local or State Association: ______________ E-Mail Address*(optional) _________

**IRS Rules Governing Political Activity**

Local Associations that are otherwise tax-exempt might be subject to federal income tax if they make expenditures designed to influence the outcome of a federal, state, or local election from their general treasury fund.

Under Section 527(f) of the Internal Revenue Code (“Code”), a § 501(c) organization is subject to tax at the highest corporate rate on the lesser of the organization’s (1) “exempt function” expenditures or its (2) net investment income for the year.

“Exempt function” is the function of 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, or the election of Presidential or Vice-Presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.

The IRS definition of exempt function is broader than the FEC (Federal Election Committee) definition of “express advocacy,” and might include publishing voter guides or voting records that are not sufficiently nonpartisan, even though they do not expressly advocate the election or defeat of a clearly identified candidate(s).

Exempt function expenditures could take the form of direct monetary expenditures or indirect in-kind services provided by your Association’s staff or through the use of your Association’s facilities or equipment free of charge.

**Certain expenditures are not treated as being made for an “exempt function”.**

IRS Regulations issued in 1980:

Expenditures of a section 501(c) organization which are otherwise allowable under the Federal Election Campaign Act or similar State statute are for an exempt function only to the extent provided in paragraph (b)(3) of this section.

Treas. Reg. § 1.527-6(b)(1). Paragraph (b)(3) of the regulation expressly reserves the issue of how
such expenditures are treated, so an affiliate that is tax-exempt under § 501(c)(5) or (c)(6) will not be subject to tax on expenditures permitted under FECA and similar state election laws. Such expenditures would, at the very least, include:

- Payment for partisan communications to Association members;
- Payment for nonpartisan voter registration and get-out-the-vote;
- Payment for costs of establishing, administering, and soliciting contributions to affiliate’s separate segregated fund (PAC).

Also Section 527(f)(3) of Code permits a 501(c) tax-exempt organization to establish and maintain a tax-exempt separate segregated fund (SSF) through which exempt function expenditures (or expenditures for activities necessary to fulfill an exempt function) may be made and thereby not treated as expenditures of the 501(c) organization itself. Political action committees, or PACs, established by NEA and its affiliates can qualify as separate segregated funds.

A PAC, not the union, is taxed at the highest corporate rate only to the extent of the PAC’s net investment income, although fundraising primarily used for non-exempt activity also may result in taxable income (see below).

Establishing an SSF is easy:

- Pass a resolution authorizing the establishment of an SSF to make political expenditures
- Apply to IRS for a separate Employer ID # (EIN)
- Open a bank account

To be considered truly separate and segregated from the organization’s general treasury fund, transfers of contributions to the PAC must be made **promptly and directly**.

- They must be made in accordance with applicable federal or state campaign finance law (e.g., under FECA, contributions over $50 must be received by the PAC within 10 days after they are made; contributions of $50 or less must be received by the PAC within 30 days after they are made);
- Your Local Association must keep records showing the money transferred consisting only of contributions or dues, and not investment income (e.g., after being held in a non-interest bearing transmittal account, or if held in union’s interest-bearing account and union can show no interest was earned by the amount transferred); and
- Contributions or dues cannot have been used by union to earn investment income.

Failure to meet any one of the transfer requirements results in a loss of the separate segregated nature of fund -- i.e., a finding of commingling -- and therefore, exempt function expenditures are attributed to the union itself and are subject to taxation under Section 527.

**What constitutes exempt function income?**

- Contributions of money or other property;
- Membership dues, fees, or assessments from members of the political organization; or
- Proceeds from a political fundraising or entertainment event or from the sale of political campaign materials, which are not received in the ordinary course of business.
Are contributions raised through raffles considered exempt function income?

Only if they are raised in connection with a political fundraising event, meaning that the raffle must be an event related to a political activity that is outside the organization’s need for funds. Because of these IRS rules, your Local Association should not hold raffles to raise voluntary contributions for The NEA Fund.

- To avoid violating the IRS rules, hold a giveaway in which participants in the drawing for a prize are not required to buy a ticket for a chance to win and indicate on the tickets that the funds raised will be used for a specific political activity.

- This also avoids risk that a raffle violates state law.

To become tax-exempt under Section 527, PACs and other political organizations -- with limited exceptions -- must register with IRS by filing Form 8871 (Political Organization Notice of Section 527 Status).

Exceptions are political organizations that do not report to the Federal Election Commission as political committees, that reasonably anticipate having less than $25,000 during any taxable year, and that are nonfederal candidate or party committees.

Failure to file Form 8871 as required will result in treatment of the organization’s exempt function income as taxable income (less any deductions directly connected with the production of that income).

Prior to November 2002, PACs and other Section 527 organizations also had to file periodic reports on IRS Form 8872, disclosing all contributions of $200 or more received by, and all expenditures of $500 or more made by, such organization. In November 2002, a new law was enacted which exempted certain state and local PACs from reporting requirements, and made the exemption retroactive to July 1, 2000.

In order to be exempt from reporting requirements on Form 8872, your state or local PAC must meet the following definition of “qualified state or local political organization” (“QSLPO”):

- The PAC must be established and used solely for the purpose of making contributions and expenditures to influence state and local elections, including contributions to state and local candidates, state and local political committees, and for the nomination or appointment of any individual to state or local party office;

- The PAC must be subject to a state campaign finance law that requires it to report the information that would otherwise be reported on IRS Form 8872, except the new law states that a PAC will still satisfy the requirements for “qualified state or local political organization” even if the state law it is reporting under does not require reporting of contributions of $500 or less and expenditures of $800 or less. The state campaign finance law also does not have to require the PAC to report (a) the occupation or employer of its contributors; (b) the occupation or employer of any person to whom the PAC makes expenditures; (c) the purpose of its expenditures; or (d) the dates of its contributions or expenditures;

- The PAC must actually file the required campaign finance reports with the state (de minimis reporting errors are okay as long as they are ultimately corrected).

- The state board or commission with which the PAC’s reports are filed must make those reports available for public inspection; and

- No federal candidate or officeholder may control or materially participate in the direction of the PAC, solicit contributions for the PAC, or direct or control expenditures of the PAC.
The new law also requires PACs to file a new IRS Form 8871 within 30 days of any material change to the information in the original Form 8871.

Use of more than an insubstantial amount of PAC funds for non-exempt function activity such as lobbying, ballot initiatives, or other activities unrelated to nomination, election, or appointment of an individual to a federal or nonfederal public office could result in the PAC being subject to taxation at the highest corporate rate under Section 527 of the Code on all its receipts, including the money it spent on exempt function activities. Moreover, if more than an insubstantial amount of PAC funds is spent for non-exempt function activities in more than one year, the PAC could lose its status as a separate segregated fund, thereby causing the connected organization to be subject to taxation at the highest corporate rate on all exempt function activities for the current and prior years.

**Filing Categories & Requirements of Political Organizations**

Political organizations are organized and operated primarily to accept contributions and make expenditures for the purpose of influencing the “selection, nomination, election, or appointment of any individual to Federal, State, or local public office or office in a political organization, or the election of Presidential electors.” Political organizations include political party committees, federal, state and local candidate committees, and other political committees such as political action committees (PACs). The law also creates a new sub-category of political organization -- the QSLPO (see above).

Federal tax law divides political organizations into several different categories, and provides different filing requirements for each category. The chart below lists the filing requirements for each category.

**Federal organizations:**

- **FEC political committee:** A political organization (including federal candidate committees, political party committees, and PACs) that is required to report as a political committee under the Federal Election Campaign Act.

- **Other federal political organization:** A political organization attempting to influence federal elections that is not required to report as a political committee under the Federal Election Campaign Act. This is commonly known as a “527 organization.”

**State and Local organizations:**

- **Candidate committee:** A campaign committee of a state or local candidate.

- **Party committee:** A state or local committee of a political party.

- **QSLPO:** See definition above.

- **Caucus or association:** A group of state or local officials attempting to influence elections.

- **Other political organization:** Any other state or local political organization.

The filing requirements in the chart below apply to those political organizations that:

- Wish to be a tax-exempt political organization, and

- Receive or expect to receive $50,000 or more in gross receipts in any taxable year.
<table>
<thead>
<tr>
<th>If You Are A</th>
<th>You May Be Required To File</th>
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</thead>
<tbody>
<tr>
<td>FEC political committee, state or local candidate committee or state or local committee of a political party</td>
<td>Form 1120-POL</td>
</tr>
<tr>
<td>Qualified state or local political organization (QSLPO)*</td>
<td>Form 8871; Form 1120-POL; and Form 990</td>
</tr>
<tr>
<td>Caucus or association of state or local officials*</td>
<td>Form 8871; Form 8872; and Form 1120-POL</td>
</tr>
<tr>
<td>Any other political organization, including other federal political organizations and other state or local political organizations</td>
<td>Form 8871; Form 8872; Form 1120-POL; and Form 990 or Form 990-EZ</td>
</tr>
</tbody>
</table>

*An organization may be both a QSLPO and a caucus or association of state or local officials. If so, it is not required to file Form 8872 and Form 990.

**NOTE:** If you are:
- A political organization that is not tax-exempt, or
- A tax-exempt political organization that does not have gross receipts of at least $50,000,
  Then you must file Form 1120-POL if you have taxable income after taking the $100 specific deduction for any taxable year.

Description of Form Filing Requirements:

   Unless excepted (see chart below), a political organization must file Form 8871, *Political Organization Notice of 527 Status*, with the IRS to be tax-exempt. Until it files the form, its income (including contributions) is subject to taxation. Form 8871 must be filed electronically, within 24 hours of the political organization's establishment. An amended Form 8871 must be filed within 30 days of any material change (including termination), or any income (including contributions) it receives after the material change will be subject to taxation.

   Tax-exempt political organizations, other than QSLPOs, that file Form 8871 must file Form 8872, *Political Organization Report of Contributions and Expenditures*, to disclose information concerning:
   - expenditures that aggregate $500 or more per person, per calendar year; and
   - contributions that aggregate $200 or more per person, per calendar year.
A tax-exempt political organization that does not disclose this information must pay an amount equal to the highest corporate tax rate (39 percent) multiplied by the amount of contributions and expenditures not disclosed.

The filing due dates are available on the IRS web site at www.irs.gov/polorgs
A political organization is not required to file Form 8872 for any period of time that it is subject to tax on its income because it did not file or amend a Form 8871.

Political organizations, whether or not tax-exempt, that have taxable income in excess of the $100 specific deduction in a taxable year must file Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations. Form 1120-POL is due by the 15th day of the 3rd month after the end of the organization’s taxable year. Political organizations may request a six-month extension of the filing deadline by filing Form 7004, Application for Automatic Extension of Time to File Corporate Income Tax Return. This extension must be filed by the due date of Form 1120-POL. There is a penalty for failure to file Form 1120-POL.

4. Form 990 or 990-EZ – Return of Organization Exempt from Income Tax
Unless excepted (see chart below), a tax-exempt political organization must file an exempt organization annual information return if it has gross receipts of $50,000 or more for the taxable year ($100,000 for QSLPOs). A tax-exempt political organization with gross receipts of less than $100,000 and assets of less than $250,000 at the end of the year may file a Form 990-EZ, Short Form Return of Organization Exempt from Income Tax. Otherwise, it files a Form 990, Return of Organization Exempt from Income Tax.
Form 990 or Form 990-EZ is due on the 15th day of the 5th month after the end of the organization’s taxable year. There is a penalty for failure to file this return. Organizations may request a three-month extension, without showing cause, by filing Form 8868, Application for Extension of Time to File an Exempt Organization Return, by the due date. A second three-month extension, with cause, may also be requested through Form 8868.

<table>
<thead>
<tr>
<th>Form</th>
<th>When filed</th>
<th>Exceptions to filing requirement</th>
</tr>
</thead>
</table>
| 8871   | Within 24 hours of establishment or within 30 days of any material change, including termination | Organization that does not seek tax-exempt status;  
Political committee required to report to the FEC  
Campaign committee of state and local candidates;  
State or local committee of political parties; and  
Organization that reasonably expects annual gross receipts to always be less than $50,000 |
<p>| 8872   | At organization's option, quarterly/semiannually or monthly, on same basis for entire calendar year (see form instructions for detailed information) | Any organization excepted from Form 8871 filing requirement (see above); and QSLPO |</p>
<table>
<thead>
<tr>
<th>Form</th>
<th>When filed</th>
<th>Exceptions to filing requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1120-POL</td>
<td>Due the 15th day of the 3rd month after the close of the taxable year</td>
<td>Political organization with no taxable income after taking the $100 specific deduction</td>
</tr>
<tr>
<td>990 or 990-EZ</td>
<td>Due the 15th day of the 5th month after the close of the taxable year</td>
<td>Any organization excepted from Form 8871 filing requirement (see above); and Caucus or association of state or local officials</td>
</tr>
</tbody>
</table>

- Disclosure Requirements

Tax-exempt section 527 organizations must make their forms (other than Form 1120-POL) publicly available for inspection and copying at their principal place of business.
VIII. Retention Guidelines

U. S. Government Retention Requirements

The following retention requirements refer to those issued under the Internal Revenue Code of 1954 and the United States Code of Federal Regulation (CFR)

1 - Income Tax – General

Any person or entity subject to, or required to file a return of information with respect to income shall keep such permanent books of account of records, including inventories, as are sufficient to establish the amount of gross income deductions, credits, or other matters required to be shown by such person in any return of such tax or information.

2 - Income Tax – Exempt Organizations

In addition to the books and records required by the “Income Tax – General” paragraph with respect to the tax imposed on unrelated business income, every organization exempt from tax under section 501 (c) of the Code, which includes sections 501 (c) (5) and 501 (c) (6), shall keep such permanent books of account or records as are sufficient to show specifically the items of gross income, receipts, and disbursement, and other required information.

3 - Tax – Exempt Organizations – General

The general “materiality” rule applies to keeping records and books of account pertaining to information including items of gross income, receipt, disbursements, and contributions and gifts received, and to keeping other pertinent information which will enable the district director to inquire into the organization’s exempt status. An organization claiming an exemption from the filing of an information return must maintain adequate records to substantiate such claim.

The Internal Revenue, in fear that they might forget something, has imposed a general requirement that has become known as the “Materiality Rule” to cover everything that is not assigned a specific retention period. The general requirement is that records must be kept “so long as the contents thereof may become material in the administration of an internal revenue law.

Some books and records of business may be “material” for tax purposes so long as the business remains in existence, and there may be reasons other than the federal tax consequences to the individual taxpayer for retaining certain records for an indefinite period.

To be more precise, we can separate records into two categories as follows:

1. Records of property from which a basis must be determined to compute gain or loss upon disposition (and depreciation, amortization, or depletion is made). Thus, if property is given a substitute basis, i.e., the basis it had in the hands of the prior owner adjusted as required by the Code or regulations, all records pertaining to that property must be retained. After a taxable disposition, the specific and/or general record retention rules as listed elsewhere will apply.

2. Records of income, deductions, and credits (including gains and losses) appearing on a return should be kept, at a minimum, until the statute of limitations for the return expires (three (3) years after return was filed for IRS assessment).

There is a six (6) year period of limitations for assessment if there has been a substantial omission of income.
The period of limitations may be extended by mutual agreement for any length of time, and no statutory period applies if fraud is established or if no return was filed.

It should be pointed out the failure to retain records for a sufficient length of time could result in the assessment of additional tax because of determining gain or loss on the disposition of property. Common sense and realism should prevail when defining the retention periods.

Sample Document Retention Policy

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

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

A. The term “documents” means materials kept in any medium by which information can be recorded or presented;

B. The term “hard-copy documents” means paper or other hard-copy documents;

C. The term “electronic documents” means documents other than hard-copy documents, including computer files of any kind, such as e-mail, website, and internet communications;

D. The term “non-essential documents” means documents that are not essential on a continuing and long-range basis to the maintenance or operations of the Association, do not have historical value for the Association, and are not subject to a legal retention requirement;

E. The term “institutional documents” means documents that are necessary on a continuing and long-range basis for the maintenance or operation of the Association, and documents that have historical value for the Association;

F. The term “legal documents” means contracts, leases, and other documents that create legal rights and obligations, documents that at a particular point in time are subject to a legal retention requirement because they deal with an event or topic that is relevant to litigation or a government investigation, and documents that are subject to a statutory or regulatory retention requirement;

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

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

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
     Seven (7) Years
   -- Employment tax filings
     Four (4) Years (after tax due date)
   -- Property records
     Permanently

d. Job Recruitment and Hiring Documents
   -- Job Announcements, and Internal Job Postings
     One (1) Year
   -- Hiring Criteria Used to Select Among Candidates
     One (1) Year (for unsuccessful applicants) Three (3) Years After Termination (for successful applicants)
   -- Tests and Other Similar Selection Criteria
     Two (2) Years (longer if adverse impact identified)
   -- Employment Applications, Resumes, Reference Letters, and Other Documents Received from Job
     One (1) Year (for unsuccessful applicants) Three (3) Years After
<table>
<thead>
<tr>
<th>Category</th>
<th>Retention Period</th>
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</thead>
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<tr>
<td>Applicants</td>
<td>Termination (for successful applicants)</td>
</tr>
<tr>
<td>-- Background Investigation Reports</td>
<td>Two (2) Years (after applicant/employee is given notice of report)</td>
</tr>
<tr>
<td>-- Pre-Hire Medical Examinations</td>
<td>One (1) Year</td>
</tr>
<tr>
<td>-- Offer and Hiring Records,</td>
<td>Six (6) Years After Termination</td>
</tr>
<tr>
<td>Employment Contracts</td>
<td></td>
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<tr>
<td>-- Immigration and Tax Forms</td>
<td>Three (3) Years</td>
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<tr>
<td>Upon Hiring</td>
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<tr>
<td>e. Employment Documents</td>
<td></td>
</tr>
<tr>
<td>-- EEO-1 Reports</td>
<td>Three (3) Years</td>
</tr>
<tr>
<td>-- Vets-100 Forms</td>
<td>Two (2) Years</td>
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<tr>
<td>-- Affirmative Action Plans</td>
<td>Two (2) Years (longer if adverse impact identified)</td>
</tr>
<tr>
<td>-- Wage and Hour Records</td>
<td>Three (3) Years</td>
</tr>
<tr>
<td>-- Family and Medical Leave Act Records</td>
<td>Three (3) Years</td>
</tr>
<tr>
<td>-- Individual Employment Records</td>
<td>Three (3) Years After Termination</td>
</tr>
<tr>
<td>-- General Employment Records</td>
<td>Three (3) Years</td>
</tr>
<tr>
<td>-- General Employee Benefit Plans</td>
<td>Six (6) Years (after filing)</td>
</tr>
<tr>
<td>-- Retirement Plans</td>
<td>Permanently</td>
</tr>
<tr>
<td>-- Group Health Plans</td>
<td>Two (2) Years under HIPPA (after loss of coverage) Six (6) Years under COBRA (after loss of coverage)</td>
</tr>
<tr>
<td>-- OSHA Records</td>
<td>Five (5) Years</td>
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Introduction

In response to the Enron and World.com financial scandals, Congress enacted the United States Public Company Accounting Reform and Investor Protection Act of 2002, commonly known as the Sarbanes-Oxley Act. In brief, the Sarbanes-Oxley Act -- which does not apply to not-for-profit entities (for the most part) -- seeks to protect shareholders and the general public from accounting irregularities and fraudulent activities. The publicity generated by the Sarbanes-Oxley Act -- and several recent high-profile incidents of conflicts of interest and corruption involving elected officials, unions, and corporations -- have prompted many not-for-profit organizations to voluntarily adopt policies designed to avoid conflicts of interest and ensure compliance with legal requirements.

In May 2003, NEA created a team chaired by then Secretary/Treasurer, Lily Eskelsen, state Vice-Presidents, Executive Directors, Business Managers, and NEA staff named the Work Team on Fiscal Responsibility. The Work Team developed the Financial & Operational Standards and the Whistleblower and Conflict of Interest policies for NEA Officials and Employees. The NEA Board of Directors approved the Financial & Operational Standards on February 14, 2004, the Whistleblower & Conflict of Interest policies at their May 5-6, 2006, meeting and the Audit Committee Policy in 2007.

These standards and policies were distributed to the State Association Officers, Executive Directors and Business Managers to serve as guidelines/recommendations for best practices in financial management. NEA encouraged all affiliates to adopt the policies mentioned above. A sample internal control manual had been distributed to all state associations with recommended Internal Controls procedures.

In continuation of our Association and its Affiliates promoting and maintaining a high standard of fiduciary responsibility and accountability, NEA and NCSEA have launched a joint effort to update our standards of financial performance and reporting and to promote our policies of disclosure. In its review of the Financial & Operational Standards, this partnership proposes the updated enclosed Financial & Operational Standards that showcase current fiduciary principles to promote solid financial management. We highly recommend adoption of these guidelines as well as an annual review by state affiliates.
We, the governance and employees of the National Education Association and its Affiliates (the Association), acknowledge our special responsibility to ensure the integrity, honesty and reputation of the Association. We pledge our support to the members, students and communities we serve. As leaders and employees, we are entrusted fiduciaries of the Association and the keepers of its voice. Members believe in us, support us and trust us with Association resources.

We, the governance and employees of the Association, accept the responsibility to treat Association resources with the utmost of care and to adhere to the highest ethical standards. To that end, we acknowledge the principles that will guide us, the control activities we will use to protect the resources entrusted to us, and our process to monitor those controls.

We acknowledge that to the best of the Association’s ability, the guidelines contained in this document have been adopted and implemented.

DATED this __________ of ______________________, 20___.

President_____________________________________________

Executive Director___________________________________
I. Code of Ethical Conduct

In fulfillment of our obligation we commit to:

1. Exercise appropriate fiduciary responsibilities over Association resources;
2. Not having, directly or indirectly, an interest or relationship, take an action or engage in any transaction or incur any obligation which is in conflict with, or gives the appearance of a conflict with, the proper and faithful performance of our responsibilities;
3. Comply with policies of the Association and applicable laws and regulations;
4. Respect confidentiality of information acquired in the course of our work;
5. Provide Association constituents with information that is complete, accurate and appropriate;
6. Carry out activities professionally, with honesty and integrity;
7. Not knowingly be a party to any illegal activity or breach of fiduciary responsibility;
8. Report violations of this Code in accordance with all applicable rules of procedure;
9. Institute due process policies for violations of this Code of Ethics;
10. Be accountable for adhering to this Code.
II. Integrity of Internal Controls

A strong Internal Control structure is fundamental to achieving Association goals. Internal Controls must be designed to provide reasonable assurances regarding the safeguarding of resources against mistakes, fraud or abuse, reliability of operating and financial information, continued commitment to compliance with Association policies, applicable laws and regulations, and the accuracy of our business activities and records. Internal Controls must be built on uncompromising integrity, good business judgment and a culture of good control practices.

In fulfillment of our obligation to maintain the highest standards of quality in financial reporting through business ethics and effective internal controls, we support:

1. A control environment founded on ethical values and technical competence;
2. The identification and analysis of relevant internal and external risks that can hinder the achievement of business and Association objectives;
3. The implementation of control activities that mitigate each identified risk, with the appropriate focus on prevention, detection and correction;
4. The institution of fluid information pathways among management, employees and governance that capture, process and communicate relevant internal and external information in a timely manner;
5. Systems of evaluation and assessment to monitor whether Internal Controls are adequate, effective and adaptive;
6. Adoption of formal internal control policies and procedures;
7. Documentation of systems of internal control procedures in a comprehensive manner as well as roles and responsibilities of governance and employees;
8. Appropriately communicating with and educating governance and employees on their roles and responsibilities.
III. Responsibility of the Audit Committee(s)

In the spirit of sound fiscal practices, we believe in the oversight of our financial systems. While Audit Committees are not a required element in the oversight of financial systems in not for profit organizations, they are highly recommended. Listed below is what is necessary if an Audit Committee(s) are applicable to an Affiliate.

Audit Committees may be an existing governance body or a specially charged committee. Management has an important operational role working with vendors and auditors and should assist the Audit Committee(s), but the Committee(s) must be independent of management, informed and trained to understand basic finances, the role of an auditor and their role to report and advise.

It is highly recommended that the Audit Committee(s) should consist of at least one member of whom shall have financial expertise and is independent of the Association (see Independent Financial Expert Qualifications in section IV).

In fulfillment of our obligation to monitor, question, inform, improve and advise, and as those responsible for the fairness, thoroughness and accuracy of financial information, we strongly support the institution of an Audit Committee(s) that will:

1. Report to our Executive Committee and/or Board of Directors at least annually;
2. Review and understand financial statements;
3. Be responsible for the recommendation to the appropriate body of the appointment, compensation and presentation of the work of any public accounting firm performing audit services;
4. Review any audit problems or difficulties, and recommend to the appropriate body resolution of disagreements between the independent auditor and management;
5. Review the Management Letter provided by the independent auditor;
6. Establish procedures for the receipt, retention and treatment of complaints received regarding internal controls and auditing;
7. Request to engage independent counsel, independent financial experts or other advisors, as determined necessary to carry out its duties;
8. Participate in training necessary to fulfill these duties.
9. Be aware of all established material related entities/subsidiaries and the specific nature of the relationship with such entities.

1A related entity is considered material if either of the following two tests are met: net assets are equal to at least 10% of the state association net assets, or total revenues are equal to at least 10% of the state association dues revenues.

2An entity is considered related if any of the following tests are met: it is wholly or partially owned by the association; it is controlled by the Association through financial support or governance appointment; or it is an entity for which the Association has a financial interest, including those where a legal or ethical duty exists to guarantee obligations. Examples include, but are not limited to, foundations; political action committees; scholarship funds; property holding companies; trusts for the benefit of employees of the association; and trusts that are managed by or under trusteeship of the Association’s management.

5 A state could have more than one Audit Committee if it so chooses to cover all related financial entities.

6 Independent of Association means that, apart from his or her membership on the Audit Committee, a person does not hold a governance or staff position with the Association have a financial relationship with Association or otherwise serve as an agent or representative of the Association.
IV. Audit Committee Independent Financial Expert Qualifications

An audit committee independent financial expert should possess the following knowledge and skills:

- An understanding of financial statement presentation and generally accepted accounting principles.
- An understanding of the scope of a financial audit and generally accepted auditing standards.
- Prior experience analyzing or auditing financial statements that are reasonably comparable in the scope of issues and level of complexity expected for the association.
- The ability to evaluate the application of generally accepted accounting principles related to accruals, valuations, and classifications.
- An understanding of internal controls and appropriate compensating controls.
- The ability to effectively communicate financial information and concepts.

An independent financial expert may have acquired the appropriate knowledge and skills through the following education and experience:

- Higher education in accounting, finance, economics, or business that includes financial data analysis and reporting.
- Experience as a chief financial officer, business manager, auditor, public accountant, or similar positions that was reasonably comparable in scope and complexity.
In furtherance of setting standards for ethics, internal controls and monitoring of Association finances NEA adopted Whistleblower and Conflict of Interest policies for both NEA Officials and Employees.

Attached are copies of these four policies adopted by the NEA Board of Directors. Please use these policies as guidance in developing similar policies with your Association or contact the NEA Office of the Chief Financial Officer for assistance.

1. Whistleblower Policy for NEA Officials
2. Whistleblower Policy for NEA Employees
3. Conflict of Interest Policy for NEA Officials
4. Conflict of Interest Policy for NEA Employees
V.1 Whistleblower Policy for NEA Officials

NEA officials are obligated to comply with all relevant legal requirements in carrying out their NEA responsibilities. A failure to meet this obligation – whether intentional or inadvertent – can have adverse consequences for the reputation and operation of NEA. The purpose of this Whistleblower Policy (“WB Policy”) is to establish a procedure by means of which any such failures can be brought to the attention of NEA, so that appropriate corrective action can be taken.

I. Definitions

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

A. The term “misconduct” means an action taken by an NEA official in carrying out his or her NEA responsibilities that is in violation of a legal requirement.

B. The term “NEA official” means an NEA Executive Officer, a member of the NEA Executive Committee, a member of the NEA Board of Directors, a member of an NEA Committee, and any other person designated by NEA governance to represent NEA. The term does not mean an employee of, or a consultant retained by, NEA.

C. The term “person” means a member of NEA, an employee of NEA or an NEA affiliate, a consultant or vendor who does or seeks to do business with NEA or an NEA affiliate, and any other representative of NEA or an NEA affiliate.

D. The term “WB Officer” means the person who is responsible for the implementation of the WB Policy.

E. The term “whistleblower” means a person who notifies the WB Officer of an action that he or she has reasonable cause to believe constitutes misconduct.

II. WB Officer

The NEA Vice-President shall serve as the WB Officer, and shall in that capacity be responsible for the implementation of the WB Policy. The WB Officer shall monitor the implementation of the WB Policy, and make periodic reports regarding its implementation to the NEA Executive Committee. The NEA Executive Committee shall recommend to the NEA Board of Directors such modifications in the Policy as it may from time to time deem appropriate.

III. Notifying NEA of Alleged Misconduct

A. Any person who has reasonable cause to believe that an NEA official has engaged or is about to engage in misconduct, should notify the WB Officer in writing. That person (the whistleblower) shall identify himself or herself in the notice to the WB Officer, but the WB Officer shall, if requested to do so by the whistleblower, treat the notice as anonymous and shall not, except in response to a legal mandate, reveal the whistleblower’s name. If the WB Officer is unavailable, and the whistleblower believes that a delay in providing notification can have adverse consequences for NEA, he or she may notify the NEA Secretary-Treasurer, who shall as soon as possible thereafter turn the matter over to the WB Officer.

B. If, based upon the information provided by the whistleblower and other relevant information, the WB Officer has reasonable cause to believe that an NEA official has engaged or is about to engage in misconduct, the WB Officer shall turn the matter over to the NEA Office of General Counsel (“OGC”).

C. The OGC shall conduct an expeditious investigation of the alleged misconduct, and shall submit
to the WB Officer a written opinion setting forth its conclusions as to whether the NEA official has engaged or is about to engage in misconduct, and, if so, what should be done to correct the situation.

D. After consulting with the NEA Executive Committee, the WB Officer shall arrange for such action to be taken as he or she deems appropriate to correct the situation.

E. If the WB Officer concludes that any person has made an allegation of misconduct, or has participated in an investigation of alleged misconduct, in bad faith or without reasonable cause, the WB Officer, after consulting with the NEA Executive Committee, shall arrange for appropriate disciplinary action to be taken against that person.

IV. Protection of Persons who Provide Evidence of Alleged Misconduct

A. Except as otherwise provided in Section III (E) above, no person shall be subject to any form of direct or indirect retaliation by an NEA official, an NEA employee, or other NEA representative because he or she (1) is a whistleblower, (2) has participated in an investigation of alleged misconduct, or (3) has in good faith in any other way been involved in the implementation of the WB Policy.

B. If any person believes that he or she has been subject to retaliation in violation of Section A above, that person shall report such retaliation to the WB Officer. The WB Officer shall investigate the matter, and if the WB Officer concludes that an NEA official, NEA employee, or other NEA representative has engaged in retaliation, the WB Officer, after consulting with the NEA Executive Committee, shall arrange for appropriate disciplinary action to be taken against said NEA official, NEA employee, or representative of NEA.

V. Miscellaneous

A. Nothing in the WB Policy shall be interpreted or applied to deprive any person of any right that he or she may have under the NEA governing documents, a contract with NEA, or a statute. To the extent that the WB Policy is inconsistent with any such right, the right in the NEA governing document, contract with NEA, or statute shall take precedence.

B. Any person who believes that an NEA official has engaged or is about to engage in misconduct is encouraged to exhaust the WB Policy before attempting to deal with the matter in any other forum.

C. All information and documents involved in the implementation of the WB Policy shall be treated as confidential, and the WB Officer shall make such information and documents available to others only on an “as needed” basis. To the extent relevant, all privileges, including the attorney/client and attorney work product privileges, shall apply to information and documents involved in the implementation of the WB Policy.

D. If a question arises as to whether the WB Officer has engaged, may be engaged, or is about to engage in misconduct, the matter shall be dealt with by the NEA President.

VI. Effective Date and Amendment Distribution

A. The WB Policy shall become effective on the date that it is adopted by the NEA Board of Directors, and shall supersede all prior NEA policies dealing with the same subject. The Board of Directors may amend the WB Policy from time to time as it deems appropriate.

B. The WB Policy shall be posted on InsideNEA, and a copy of the Policy shall be distributed to all NEA officials, all candidates for NEA office, and all persons who become members of NEA committees or are otherwise designated to represent NEA.
NEA employees are obligated to comply with all relevant legal requirements in carrying out their NEA responsibilities. A failure to meet this obligation – whether intentional or inadvertent – can have adverse consequences for the reputation and operation of NEA. The purpose of this Whistleblower Policy (“WB Policy”) is to establish a procedure by means of which any such failures can be brought to the attention of NEA, so that appropriate corrective action can be taken.

I. Definitions

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

A. The term “misconduct” means an action taken by an NEA employee in carrying out his or her NEA responsibilities that is in violation of a legal requirement.

B. The term “NEA employee” means a regular, probationary, part-time, or temporary employee of NEA, and a consultant or vendor that does or seeks to do business with NEA. The term does not mean an NEA officer.

C. The term “person” means a member of NEA, an employee of NEA or an NEA affiliate, a consultant or vendor who does or seeks to do business with NEA or an NEA affiliate, and any other representative of NEA or an NEA affiliate.

D. The term “WB Officer” means the person who is responsible for the implementation of the WB Policy.

E. The term “whistleblower” means a person who notifies the WB Officer of an action that he or she has reasonable cause to believe constitutes misconduct.

II. WB Officer

The NEA Deputy Executive Director shall serve as the WB Officer, and shall in that capacity be responsible for the implementation of the WB Policy. The WB Officer shall monitor the implementation of the WB Policy, and recommend to the NEA Executive Director such modifications in the Policy as he or she may from time to time deem appropriate.

III. Notifying NEA of Alleged Misconduct

A. Any person who has reasonable cause to believe that an NEA employee has engaged or is about to engage in misconduct, should notify the WB Officer in writing. That person (the whistleblower) shall identify himself or herself in the notice to the WB Officer, but the WB Officer shall, if requested to do so by the whistleblower, treat the notice as anonymous and shall not, except in response to a legal mandate, reveal the whistleblower’s name. If the WB Officer is unavailable, and the whistleblower believes that a delay in providing notification can have adverse consequences for NEA, he or she may notify the NEA Chief Financial Officer, who shall as soon as possible thereafter turn the matter over to the WB Officer.

B. If, based upon the information provided by the whistleblower and other relevant information, the WB Officer has reasonable cause to believe that an NEA employee has engaged or is about to engage in misconduct, the WB Officer shall turn the matter over to the NEA Office of General Counsel (“OGC”).

C. The OGC shall conduct an expeditious investigation of the alleged misconduct, and shall submit
to the WB Officer a written opinion setting forth its conclusions as to whether the NEA employee has engaged or is about to engage in misconduct, and, if so, what should be done to correct the situation.

D. After consulting with the NEA Executive Director, the WB Officer shall arrange for such action to be taken as he or she deems appropriate to correct the situation.

E. If the WB Officer concludes that any person has made an allegation of misconduct, or has participated in an investigation of alleged misconduct, in bad faith or without reasonable cause, the WB Officer, after consulting with the NEA Executive Director, shall arrange for appropriate disciplinary action to be taken against that person.

IV. Protection of Persons who Provide Evidence of Alleged Misconduct

A. Except as otherwise provided in Section III (E) above, no person shall be subject to any form of direct or indirect retaliation by an NEA official, an NEA employee, or other NEA representative because he or she (1) is a whistleblower, (2) has participated in an investigation of alleged misconduct, or (3) has in good faith in any other way been involved in the implementation of the WB Policy.

B. If any person believes that he or she has been subject to retaliation in violation of Section A above, that person shall report such retaliation to the WB Officer. The WB Officer shall investigate the matter, and if the WB Officer concludes that an NEA official, NEA employee, or other NEA representative has engaged in retaliation, the WB Officer, after consulting with the NEA Executive Director, shall arrange for appropriate disciplinary action to be taken against said NEA official, NEA employee, or representative of NEA.

V. Miscellaneous

A. Nothing in the WB Policy shall be interpreted or applied to deprive any person of any right that he or she may have under the NEA governing documents, a collective bargaining agreement or other contract with NEA, or a statute, including any right that an NEA employee may have to challenge any disciplinary action that may be taken against him or her pursuant to Sections III (E) or IV (A) of the WB Policy through the grievance procedure in a collective bargaining agreement with NEA. To the extent that the WB Policy is inconsistent with any such right, the right in the NEA governing document, collective bargaining agreement or other contract with NEA, or statute shall take precedence.

B. Any person who believes that an NEA employee has engaged or is about to engage in misconduct is encouraged to exhaust the WB Policy before attempting to deal with the matter in any other forum.

C. All information and documents involved in the implementation of the WB Policy shall be treated as confidential, and the WB Officer shall make such information and documents available to others only on an "as needed" basis. To the extent relevant, all privileges, including the attorney/client and attorney work product privileges, shall apply to information and documents involved in the implementation of the WB Policy.

D. If a question arises as to whether the WB Officer has engaged or is about to engage in misconduct, the matter shall be dealt with by the NEA Executive Director. If such a question arises with regard to the NEA Executive Director, the matter shall be dealt with by the NEA Executive Committee.

VI. Effective Date and Amendment Distribution

A. The WB Policy shall become effective on the date that it is adopted by the NEA Executive Committee, and shall supersede all prior NEA policies dealing with the same subject. The NEA Executive Committee may amend the WB Policy from time to time as it deems appropriate,
provided that written notice of any proposed amendment shall be given to the presidents of the
unions and other organizations that represent NEA employees at least thirty (30) calendar days
before the amendment is acted on by the NEA Executive Committee.

B. The WB Policy shall be posted on InsideNEA, and a copy of the Policy shall be distributed to all
NEA employees.
V.3 Conflict of Interest Policy for NEA Officials

NEA officials have a fiduciary obligation to act in the best interests of NEA. The purpose of this Conflict of Interest Policy for NEA Officials (“CI Policy”) is to provide guidance to NEA officials in complying with this fiduciary obligation.

I. Definitions

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

A. The term “NEA official” means an NEA Executive Officer, a member of the NEA Executive Committee, a member of the NEA Board of Directors, a member of an NEA committee, and any other person designated by NEA governance to represent NEA. The term does not mean an employee of, or a consultant retained by, NEA;

B. The term “immediate family” of an NEA official means his or her parent, spouse or spousal equivalent, child, grandparent, grandchild, sibling, mother-or father-in-law, sister-or brother-in-law, or daughter-or son-in-law;

C. The term “directly or indirectly” means an action taken by an NEA official in his or her own name (directly), or through a member of the immediate family or a business associate of an NEA official (indirectly);

D. The term “participate in an NEA decision” means the authority to approve, disapprove, recommend, or otherwise influence the position taken by NEA; and

E. The term “Conflict of Interest Officer” means the person who is responsible for the implementation of the CI Policy.

II. Statement of Principle

No NEA official shall, directly or indirectly, have any interest or relationship, take any action or engage in any transaction, or incur any obligation which is in conflict with, or gives the appearance of a conflict with, the proper and faithful performance of his or her NEA responsibilities.

III. Prohibited Activities

The activities that are prohibited by the Statement of Principle set forth in Section II include, but are not limited to, the following:

A. No NEA official shall, without the advance written approval of the CI Officer, have a direct or indirect financial or personal interest in or relationship with any business, firm, person, or entity that does or seeks to do business with NEA. This prohibition shall not apply to investments in a business, firm, or other entity through the purchase of securities that are traded on a registered national securities exchange, or utilizing any services that the business, firm, person, or entity makes available to the general public in the normal course of business.

B. No NEA official shall receive any compensation, gift, gratuity, loan or other thing of value from any business, firm, person, or other entity which does or seeks to do business with NEA, or which has financial or other interests that may be affected by the performance or nonperformance of the NEA official's NEA responsibilities. The term “business, firm, person or other entity” does not include NEA affiliates or subsidiary organizations (e.g., NEA Member Benefits Corporation), and the term “compensation, gift, gratuity, loan, or any other thing of value” does not include an item that has a value of $250 or less, or a loan that is available to the general public on similar terms. The prohibition in this Section III (B) shall not apply if the NEA official receives the item in question in order to perform his or her NEA responsibilities.
C. No NEA official shall, (1) except in the performance of his or her NEA responsibilities or in response to a legal mandate, disclose any information obtained by reason of his or her NEA position that is not otherwise available to the general membership of NEA, and that could be used to the detriment of NEA, or (2) use or permit others to use any information obtained by reason of his or her NEA position that is not otherwise available to the general membership of NEA to directly or indirectly further the NEA official’s financial or personal interest.

D. No NEA official shall, without the advance written approval of the CI Officer, directly or indirectly sell goods or services to NEA. This prohibition shall not apply to the payment, in accordance with NEA policy, of compensation or a stipend to an NEA official for carrying out his or her NEA responsibilities.

E. No NEA official shall accept any other position or assignment which would conflict with his or her fiduciary obligation to act in the best interests of NEA, or interfere with the NEA official’s ability to properly carry out his or her NEA responsibilities.

F. No NEA official shall use or permit others to use his or her position with NEA to create the impression that NEA endorses or has endorsed a product, service or program when that is not in fact the case, or to otherwise directly or indirectly further the NEA official’s financial or personal interest.

IV. Implementation Procedure

A. The NEA Secretary-Treasurer shall serve as the Conflict of Interest Officer (“CI Officer”), and shall in that capacity be responsible for the implementation of the CI Policy. The CI Officer shall monitor the implementation of the CI Policy, and make periodic reports regarding its implementation to the NEA Executive Committee. The NEA Executive Committee shall recommend to the NEA Board of Directors such modifications in the Policy as it may from time to time deem appropriate.

B. (1) If an NEA official believes that he or she may be engaged or about to become engaged in an activity that is prohibited by the CI Policy, he or she shall consult with the CI Officer. The NEA official and the CI Officer shall attempt to deal with the matter informally. If they are unable to do so, the CI Officer shall submit to the NEA official a written opinion indicating whether the activity in question is prohibited by the CI Policy, and, if so, what should be done to correct the situation. (2) If the NEA official disagrees, in whole or in part, with the conclusions of the CI Officer, he or she may appeal to the NEA Executive Committee by filing a written notice of appeal with the NEA President within ten (10) calendar days after receiving the opinion of the CI Officer. The Executive Committee shall decide the appeal as expeditiously as possible, and the decision of the Executive Committee shall be final and binding. If the NEA official files a timely appeal, he or she need not comply with the opinion of the CI Officer pending the outcome of the appeal. If the NEA official does not file a timely appeal, he or she shall comply with the opinion of the CI Officer.

C. (1) If an NEA member or employee believes that an NEA official is engaged or is about to become engaged in an activity that is prohibited by the CI Policy, the member or employee may file a written complaint with the CI Officer. The complainant shall identify himself or herself to the CI Officer, but the CI Officer shall, if requested to do so by the complainant, treat the complaint as anonymous and not reveal the complainant’s name. (2) Upon receiving a complaint, the CI Officer shall consult with the complainant and the NEA official in question. Based upon the information received from the complainant and the NEA official, and/or other relevant information, the CI Officer shall decide whether the NEA official is engaged or is about to become engaged in an activity that is prohibited by the CI Policy, and, if so, what should be done to correct the situation. The CI Officer shall submit to the NEA official and the complainant a written opinion setting forth his or her conclusions. (3) If the NEA official disagrees, in whole or in part, with the conclusions of the CI Officer, he or she may appeal to the NEA Executive
Committee by filing a written notice of appeal with the NEA President within ten (10) calendar days after receiving the opinion of the CI Officer. The Executive Committee shall decide the appeal as expeditiously as possible, and the decision of the Executive Committee shall be final and binding. If the NEA official files a timely appeal, he or she need not comply with the opinion of the CI Officer pending the outcome of the appeal. If the NEA official does not file a timely appeal, he or she shall comply with the opinion of the CI Officer.

D. In implementing the CI Policy, the CI Officer and the NEA Executive Committee shall consider all relevant factors, including the specific NEA responsibilities of the NEA official and the nature of the allegedly prohibited activity, and shall interpret and apply the CI Policy in a manner that furthers its intended purpose.

V. Miscellaneous

A. Nothing in the CI Policy shall be interpreted or applied to deprive an NEA official of any right that he or she may have under the NEA governing documents, a contract with NEA, or a statute. To the extent that the CI Policy is inconsistent with any such right, the right in the NEA governing document, contract with NEA, or statute shall take precedence.

B. If a question arises as to whether the CI Officer or another member of the Executive Committee may be engaged or about to become engaged in an activity that is prohibited by the CI Policy, the matter shall be dealt with by the other members of the NEA Executive Committee.

C. All information and documents involved in the implementation of the CI Policy shall be treated as confidential, and the CI Officer shall make such information and documents available to others only on an “as needed” basis.

VI. Effective Date and Amendment Distribution

A. The CI Policy shall become effective on the date that it is adopted by the NEA Board of Directors, and shall supersede all prior NEA policies dealing with the same subject. The Board of Directors may amend the CI Policy from time to time as it deems appropriate.

B. The CI Policy shall be posted on InsideNEA, and a copy of the Policy shall be distributed to all NEA officials, all candidates for NEA office, and all persons who become members of NEA committees or are otherwise designated to represent NEA.
V.4 Conflict of Interest Policy for NEA Employees

NEA employees have an obligation to carry out their NEA responsibilities in a manner that advances the interests of NEA and to take no action in the course of their employment or otherwise that could be detrimental to those interests. The purpose of this Conflict of Interest Policy for NEA Employees (“CI Policy”) is to provide guidance to NEA employees in complying with this obligation.

I. Definitions

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

A. The term “NEA employee” means a regular, probationary, part-time, or temporary NEA employee. The term does not mean a consultant retained by NEA;

B. The term “immediate family” of an NEA employee means his or her parent, spouse or spousal equivalent, child, grandparent, grandchild, sibling, mother-or father-in-law, sister-or brother-in-law, or daughter-or son-in-law;

C. The term “directly or indirectly” means an action taken by an NEA employee in his or her own name (directly), or through a member of the immediate family or a business associate of an NEA employee (indirectly);

D. The term “participate in an NEA decision” means the authority to approve, disapprove, recommend, or otherwise influence the position taken by NEA; and

E. The term “Conflict of Interest Officer” means the person who is responsible for the implementation of the CI Policy.

II. Statement of Principle

No NEA employee shall, directly or indirectly, have any interest or relationship, take any action or engage in any transaction, or incur any obligation which is in conflict with, or gives the appearance of a conflict with, the proper and faithful performance of his or her NEA responsibilities.

III. Prohibited Activities

The activities that are prohibited by the Statement of Principle set forth in Section II include, but are not limited to, the following:

A. No NEA employee shall, without the advance written approval of the CI Officer, have a direct or indirect financial or personal interest in or relationship with any business, firm, person, or entity that does or seeks to do business with NEA. This prohibition shall not apply to investments in a business, firm, or other entity through the purchase of securities that are traded on a registered national securities exchange, or utilizing any services that the business, firm, person, or entity makes available to the general public in the normal course of business.
B. No NEA employee shall receive any compensation, gift, gratuity, loan or other thing of value from any business, firm, person, or other entity which does or seeks to do business with NEA, or which has financial or other interests that may be affected by the performance or nonperformance of the NEA employee’s NEA responsibilities. The term “business, firm, person or other entity” does not include NEA affiliates or subsidiary organizations (e.g., NEA Member Benefits Corporation), and the term “compensation, gift, gratuity, loan, or any other thing of value” does not include an item or items received during an NEA membership year with an aggregate value of $250 or less, or a loan that is available to the general public on similar terms. The prohibition in this Section III (B) shall not apply if the NEA employee receives the item in question in order to perform his or her NEA responsibilities.

C. No NEA employee shall, (1) except in the performance of his or her NEA responsibilities or in response to a legal mandate, disclose any information obtained by reason of his or her NEA employment that is not otherwise available to the general membership of NEA, and that could be used to the detriment of NEA; or (2) use or permit others to use information obtained by reason of his or her NEA employment that is not otherwise available to the general membership of NEA to directly or indirectly further the NEA employee’s financial or personal interest.

D. No NEA employee shall, without the advance written approval of the CI Officer, directly or indirectly sell goods or services to NEA. This prohibition shall not apply to the payment of compensation to an NEA employee for carrying out his or her NEA responsibilities.

E. No NEA employee shall accept any other position or assignment which would conflict with his or her obligation to carry out his or her NEA responsibilities in a manner that advances the interests of NEA, or interfere with the NEA employee’s ability to properly carry out those responsibilities.

F. No NEA employee shall use or permit others to use his or her employment with NEA to create the impression that NEA endorses or has endorsed a product, service or program when that is not in fact the case.

G. No NEA employee shall, without the advance written approval of the NEA CI Officer, use his or her NEA employment to directly or indirectly further the NEA employee’s financial or personal interest.

IV. Implementation Procedure

A. The NEA Chief Financial Officer shall serve as the Conflict of Interest Officer (“CI Officer”), and shall in that capacity be responsible for the implementation of the CI Policy. The CI Officer shall monitor the implementation of the CI Policy, and recommend to the NEA Executive Director such modifications in the Policy as he or she may from time to time deem appropriate.

B. (1) If an NEA employee believes that he or she may be engaged or about to
become engaged in an activity that is prohibited by the CI Policy, he or she shall consult with the CI Officer. The NEA employee and the CI Officer shall attempt to deal with the matter informally. If they are unable to do so, the CI Officer shall submit to the NEA employee a written opinion indicating whether the activity in question is prohibited by the CI Policy, and, if so, what should be done to correct the situation. (2) If the NEA employee disagrees, in whole or in part, with the conclusions of the CI Officer, he or she may appeal to the NEA Executive Director by filing a written notice of appeal with the NEA Executive Director within ten (10) calendar days after receiving the opinion of the CI Officer. The Executive Director shall decide the appeal as expeditiously as possible, and the decision of the Executive Director shall be final and binding, subject to whatever contractual rights the NEA employee may have to challenge the Executive Director’s decision, including, without limitation, his or her right to challenge said decision through the grievance procedure in a collective bargaining agreement with NEA. If the NEA employee files a timely appeal, he or she need not comply with the opinion of the CI Officer pending the outcome of the appeal. If the NEA employee does not file a timely appeal, he or she shall comply with the opinion of the CI Officer. If the NEA employee is a member of a bargaining unit, he or she may, at his or her option, have a union representative participate in the consultation and appeal.

C. (1) If an NEA member or employee believes that an NEA employee is engaged or is about to become engaged in an activity that is prohibited by the CI Policy, the member or employee may file a written complaint with the CI Officer. The complainant shall identify himself or herself to the CI Officer, but the CI Officer shall, if requested to do so by the complainant, treat the complaint as confidential and not reveal the complainant’s name. (2) Upon receiving a complaint, the CI Officer shall consult with the complainant and the NEA employee in question. Based upon the information received from the complainant and the NEA employee, and/or other relevant information, the CI Officer shall decide whether the NEA employee is engaged or is about to become engaged in an activity that is prohibited by the CI Policy, and, if so, what should be done to correct the situation. The CI Officer shall submit to the NEA employee and the complainant a written opinion setting forth his or her conclusions. (3) If the NEA employee disagrees, in whole or in part, with the conclusions of the CI Officer, he or she may appeal to the NEA Executive Director by filing a written notice of appeal with the NEA Executive Director within ten (10) calendar days after receiving the opinion of the CI Officer. The Executive Director shall decide the appeal as expeditiously as possible, and the decision of the NEA Executive Director shall be final and binding, subject to whatever contractual rights the NEA employee may have to challenge the Executive Director’s decision, including, without limitation, his or her right to challenge said decision through the grievance procedure in a collective bargaining agreement with NEA. If the NEA employee files a timely appeal, he or she need not comply with the opinion of the CI Officer pending the outcome of the appeal. If the NEA employee does not file a timely appeal, he or she shall comply with the opinion of the CI Officer. If the NEA employee is a member of a bargaining unit, he or she may, at his or her option, have a union representative participate in the consultation and appeal.

D. In implementing the CI Policy, the CI Officer and the NEA Executive Director shall consider all relevant factors, including the specific NEA responsibilities of the
NEA employee and the nature of the allegedly prohibited activity, and shall interpret and apply the CI Policy in a manner that furthers its intended purpose.

V. Miscellaneous

A. Nothing in the CI Policy shall be interpreted or applied to deprive an NEA employee of any right that he or she may have under a contract with NEA or a statute. To the extent that the CI Policy is inconsistent with any such right, the contractual or statutory right shall take precedence.

B. If a question arises as to whether the CI officer has engaged, may be engaged, or is about to become engaged in an activity that is prohibited by the CI Policy, the matter shall be dealt with by the NEA Executive Director. If such a question arises with regard to the NEA Executive Director, the matter shall be dealt with by the NEA Executive Committee.

C. All information and documents involved in the implementation of the CI Policy shall be treated as confidential, and the CI Officer shall make such information and documents available to others only on an “as needed” basis.
X. Appendix - Sample Forms, Journals and Other Policies
<table>
<thead>
<tr>
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<th>Actual/Projected (Current Year)</th>
<th>Budgeted (Next Year)</th>
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<td>_______________________</td>
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<td>Agency Fee</td>
<td>_______________________</td>
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<td><strong>Other Income</strong></td>
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<td>Strengthening locals</td>
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<td>_______________________</td>
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<tr>
<td>reimbursements</td>
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<td>Interest on Savings Account</td>
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<tr>
<td>Assessments</td>
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<td>Donations – Financial Assistance</td>
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<td>_______________________</td>
</tr>
<tr>
<td>Fundraisers</td>
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<td>Miscellaneous</td>
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<tr>
<td><strong>Total</strong></td>
<td>_______________________</td>
<td>_______________________</td>
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</table>

<p>| <strong>EXPENDITURES</strong>     |                                 |                      |
| Rent / Mortgage      | _______________________ | _______________________ |
| Real Estate Taxes    | _______________________ | _______________________ |
| Telephone            | _______________________ | _______________________ |
| Utilities            | _______________________ | _______________________ |
| Copy Machine Supplies| _______________________ | _______________________ |
| Supplies (Other)     | _______________________ | _______________________ |
| Postage              | _______________________ | _______________________ |
| Equipment Rental     | _______________________ | _______________________ |</p>
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<thead>
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<th>Item</th>
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<th>Anticipated (Next Year)</th>
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<tbody>
<tr>
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<td>Insurance</td>
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<td>Subscription – Fees</td>
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<td>Other</td>
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<td>Total</td>
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**Administration – Salaries, Expenses & Taxes**

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<thead>
<tr>
<th>Item</th>
<th>Actual/Anticipated (Current Year)</th>
<th>Anticipated (Next Year)</th>
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<tbody>
<tr>
<td>Officers Salaries</td>
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<tr>
<td>Committee Chairpersons Salaries</td>
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<td>Employee Salaries</td>
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<td>Outside Secretarial Services</td>
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<td>State Unemployment Tax</td>
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<td>Social Security Contributions</td>
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<td>Health Care Premiums</td>
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<td>Release Time Expenses</td>
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<tr>
<td>Officer Reimbursable Expenses</td>
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<tr>
<td>Legal Expenses</td>
<td></td>
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<tr>
<td>Audit Fee</td>
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<tr>
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<td>Total</td>
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<tr>
<td></td>
<td>Actual/Anticipated (Current Year)</td>
<td>Anticipated (Next Year)</td>
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<td>-----------------------------------------------------</td>
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<tr>
<td><strong>Governance Meeting Expenses</strong></td>
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<td>General Membership</td>
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<td>State Education Association Convention</td>
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<td>NEA Convention</td>
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<td>Other Conferences</td>
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<td><strong>Total</strong></td>
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<td></td>
</tr>
<tr>
<td><strong>Negotiations</strong></td>
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<tr>
<td>Committee Meetings</td>
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<td></td>
</tr>
<tr>
<td>Negotiations Sessions</td>
<td></td>
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</tr>
<tr>
<td>Training</td>
<td></td>
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<tr>
<td>Travel/Meals</td>
<td></td>
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<tr>
<td>Other</td>
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<td><strong>Total</strong></td>
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<tr>
<td><strong>Grievance Processing/ Contract Enforcement</strong></td>
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<td>Arbitration Expenses</td>
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<td>Travel/Meals</td>
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<td><strong>Total</strong></td>
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<tr>
<td><strong>Instructional/Professional Development</strong></td>
<td><strong>Actual/Anticipated (Current Year)</strong></td>
<td><strong>Anticipated (Next Year)</strong></td>
</tr>
<tr>
<td>------------------------------------------</td>
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</tr>
<tr>
<td>Committee Meetings</td>
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<tr>
<td>Training</td>
<td></td>
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<tr>
<td>Travel/Meals</td>
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<td></td>
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<tr>
<td><strong>Total</strong></td>
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</table>

| **Legislative**                          |                                      |                             |
| Committee Meetings                       |                                      |                             |
| Campaign Expenses                        |                                      |                             |
| Training                                 |                                      |                             |
| Travel/Meals                             |                                      |                             |
| Other                                    |                                      |                             |
| **Total**                                |                                      |                             |

<p>| <strong>Public Relations</strong>                     |                                      |                             |
| Committee Meetings                       |                                      |                             |
| Training                                 |                                      |                             |
| Travel/Meals                             |                                      |                             |
| Ads/Publications                         |                                      |                             |
| Other                                    |                                      |                             |
| <strong>Total</strong>                                |                                      |                             |</p>
<table>
<thead>
<tr>
<th>Membership Promotion and Maintenance</th>
<th>Actual/Anticipated (Current Year)</th>
<th>Anticipated (Next Year)</th>
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<tr>
<td>Committee Meetings</td>
<td></td>
<td></td>
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<tr>
<td>New Member Orientation</td>
<td></td>
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<tr>
<td>Gifts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel/Meals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Publications</td>
<td></td>
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<tr>
<td>Other</td>
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<td></td>
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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

| Internal Communications                                  |                                   |                         |
| Committee Meetings                                       |                                   |                         |
| Newsletter Costs                                         |                                   |                         |
| Training                                                  |                                   |                         |
| Travel/Meals                                              |                                   |                         |
| Other                                                     |                                   |                         |
| **Total**                                                 |                                   |                         |

<p>| Social                                                   |                                   |                         |
| Committee Meetings                                       |                                   |                         |
| Events Costs                                             |                                   |                         |
| Retirement Gifts                                         |                                   |                         |
| Recognition Gifts, Flowers, Cards                        |                                   |                         |
| Training                                                  |                                   |                         |
| Travel/Meals                                              |                                   |                         |
| Other                                                     |                                   |                         |
| <strong>Total</strong>                                                 |                                   |                         |</p>
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<tr>
<th>Contributions</th>
<th>Actual/Anticipated (Current Year)</th>
<th>Anticipated (Next Year)</th>
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<tr>
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<td>Scholarships</td>
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<tr>
<td>Total Expenditures</td>
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MODEL BUDGET (SUMMARY) Specimen IIIB
1 of 1

September 1, 20 _____ to August 31, 20 _____

**INCOME**

<table>
<thead>
<tr>
<th>Code No.*</th>
<th>Local Dues: ______ Members @ $ ______</th>
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<td>310A</td>
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<td>310B</td>
<td>Agency Fee: ______ Payers @ $ ______</td>
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<td>320</td>
<td>Other Income</td>
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<td><strong>Total Income</strong></td>
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**EXPENDITURES**
(By major accounts)

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>410</td>
<td>Office Maintenance</td>
<td></td>
</tr>
<tr>
<td>420</td>
<td>Administration Salaries, Expenses &amp; Taxes</td>
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<tr>
<td>430</td>
<td>Negotiations</td>
<td></td>
</tr>
<tr>
<td>440</td>
<td>Contract Enforcement</td>
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<td>Legislative</td>
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<tr>
<td>460</td>
<td>Public Relations – Membership</td>
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<td>470</td>
<td>Instructional/Professional Development</td>
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<tr>
<td>480</td>
<td>Conventions—Workshops</td>
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### Cash Receipt Journal

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<th>Agency Fee</th>
<th>Interest-Savings Acct.</th>
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<th>Donations</th>
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**EXPENSE VOUCHER**

_____________________________ Association  Voucher No.  **1**

<table>
<thead>
<tr>
<th>Date</th>
<th>Check No.</th>
<th>Amount</th>
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</table>

**Explanation**

_____________________________  ___________________________________

4 5

Approved for Payment  Received by (Payee)

______________________    _____________________________

President  Signature

______________________

Treasurer

**(Attach to Receipt/Invoice)**

---

**Expense Distribution**

<table>
<thead>
<tr>
<th>Acct. No.</th>
<th>Expense Classification</th>
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<tr>
<td>420</td>
<td>Administration Salaries, Expenses &amp; Taxes</td>
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<td>480</td>
<td>Contributions</td>
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<td>490</td>
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-96-
Sub-Classification Account
Office Maintenance
Budget vs. Actual

Specimen IV (d)

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<tr>
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<th>Rent</th>
<th>Phone</th>
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<th>Postage</th>
<th>Equip.</th>
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### CASH DISBURSEMENT DETAIL

(For current fiscal year)

Breakdown by Major Account

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<tr>
<th>Expenditures</th>
<th>Budget</th>
<th>Actual</th>
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<td>Subscriptions – Fees – Dues</td>
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<td><strong>Administration, Salary Expenses &amp; Taxes</strong></td>
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<tr>
<td>Officer and Committee Chairman Salaries</td>
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<td>Officer Expenses</td>
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<td><strong>Grand Total</strong></td>
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</table>
PETTY CASH VOUCHER

Voucher #____________________ Date ______________________
Paid To ______________________ Amount ____________________
Purpose_________________________________________________________________
Account #____________________ Received by:

(Signature)

Attach receipt if available.
### BANK RECONCILIATION

**EDUCATION ASSOCIATION**

**Specimen IV (g)**

**Date:** 

<table>
<thead>
<tr>
<th>Bank Statement Balance</th>
<th>$____ 1 $$</th>
<th>Checkbook Balance</th>
<th>$____ 2 $$</th>
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</thead>
</table>

**Plus:**  
- Deposits in Transit
  - $____ 3 $$  
  - Description  
  - Amount $____ 4 $$

**Total Deposits in Transit** $____ 5 $$

**Subtotal** $____ 6 $$

**Less:**  
- Outstanding Checks
  - Number
  - Amount $____ 7 $$  
  - Description  
  - Amount $____ 8 $$

**Total Outstanding Checks** $____ 9 $$

**Adjusted Bank Statement Balance** $____ 10 $$

**Adjusted Checkbook Balance** $____ 11 $$

**These Amounts Must Agree**
Mileage Log

Employee Name: __________________________

SS # or Employee #: _______________________

Period Covered: __________________________

<table>
<thead>
<tr>
<th>Date (mm/dd/yy)</th>
<th>Department</th>
<th>Project/Description</th>
<th>Starting Mileage</th>
<th>Ending Mileage</th>
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Travel Expense Voucher
Request for Payment

Name of Requestor: _____________________         Date Submitted: __________________

Purpose of Request:    Reimbursement _________ or    Travel Advance _________
(Check One)

Description (destination, purpose of travel, explanation of amount of travel advance):
______________________________________________________________________
______________________________________________________________________
______________________________________________________________________

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<tr>
<th>Date: (mm/dd/yy)</th>
<th>Sunday</th>
<th>Monday</th>
<th>Tuesday</th>
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</tbody>
</table>

- Requires explanation of business purpose of meal and participants.*
- As of June 2006, allowable rate is 44.5 cents per mile for business miles driven.
  Refer to www.IRS.gov for up-to-date allowable mileage reimbursement. **
- Attach applicable receipts.

Check Payable to: _____________________ Dept & Acct #: _____________________

Vendor #: _____________________ SS# or Tax ID #: _____________________

Date Needed: _____________________

Mailing Address:
______________________________________________________________________

Signature of Requestor:
______________________________________________________________________

Signature of Approver: ____________________________________________
Quarterly Audit Review Checklist

1. Obtain the cash receipts journal and perform the following:
   a. Scan the entries for the current quarter and look for any atypical/unusual receipts
      _______         ______
      Purpose: To identify and review any atypical/unusual transactions. An atypical/unusual transaction differs in nature from the common activities of the organization, or in the amount from the common activities of the organization or any item that based on the judgment of the reader warrants further review.
   b. Obtain support for entries noted in (a) above
      _______         ______
      Purpose: To obtain support for items identified in (a) in order to validate the transaction.
   c. Trace the total of each month’s cash receipts journal to the cash transaction summary prepared by the Treasurer. _______       ______
      Purpose: To compare the bookkeeping records to an independent internal source to verify that the amounts recorded are accurate.

2. Obtain the cash disbursements journal and perform the following:
   a. Scan the checks listed for the current quarter and look for any atypical/unusual items or payees as well as high dollar amounts. _______ ______
      Purpose: To identify and review any atypical/unusual transactions. An atypical/unusual transaction differs in nature from the common activities of the organization, or in the amount from the common activities of the organization or any item that based on the judgment of the reader warrants further review.
   b. Obtain supporting invoices for each item noted in (a) above. _______ ______
      Purpose: To obtain support for items identified in (a) in order to validate the transaction.
   c. Examine the check numbers to determine that they were listed in sequence and no check numbers were skipped in each month as well as between months. Verify the retention of void checks. _______ ______
Purpose: To account for all pre-numbered checks.

d. Examine a few checks at random from each month to
determine the appropriate official signed them
and that amount, date and payee agree with
the disbursement journal.

Purpose: To determine that proper procedures were followed
in the disbursement of funds.

e. Examine unused checks and determine that the next
check available is in sequence with the last check entered
in the disbursement journal.

Purpose: To account for all pre-numbered checks, in association
with (c).

f. Trace the total of each month’s cash disbursement journal
to the cash summary prepared by the Treasurer.

Purpose: To compare the bookkeeping records to an independent
source.

g. Verify that paid invoices/bills comply with the minutes of the
local.

Purpose: To determine that proper procedures were followed
in the disbursement of funds.

h. Scan the bills paid in the quarter to determine that they
were disbursed in accordance with the Bylaws and
Constitution.

Purpose: To determine that proper procedures were followed
in the disbursement of funds.

3. Obtain the checkbook and verify that the balance for
each month agrees to the cash summary prepared
by the Treasurer.

Purpose: To compare the bookkeeping records to an independent
source.

4. Obtain a bank reconciliation for each month in the quarter
and perform the following:

a. Compare the checkbook balance on the bank reconciliation to
the checkbook for each month.

Purpose: To determine that the amounts used in reconciling the
bank statements are accurate.
b. Compare the bank balance on the bank reconciliation to the bank statement for each month. 

Purpose: To determine that the amounts used in reconciling the bank statements are accurate.

c. Review every reconciling item for each month. Check the following month’s bank statement and/or cash disbursements to verify that the items were resolved.

Purpose: Reconciling items are adjustments to the bank reconciliation. This step is used to determine that reconciling items are accurate, reasonable and valid.

Individuals Present: ____________________________
Warning Signs of Fraud

**RED Signals**

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

**ORANGE Signals**

- The local is consistently behind in paying its SEA-NEA dues.
- No annual review of the books/records by an outside body.
- Signing of blank checks.
- No budget or no comparison of actual results to the budget.
- Checks written payable to the check signer without a second signature.
- Bank statements are not reviewed by someone other than the treasurer.
- People in positions of authority appear to be living beyond their means.
- No written, enforced guidelines on:
  - Conflict of interest
  - Ethics
  - Documentation requirements/retention
  - Reimbursement of expenses
  - Check signing
  - Training for treasurer on his/her duties
  - Training for officers on financial matters such as controls and oversight over the bookkeeping function
  - Annual Board approval of banking arrangements and approved signatures
  - Strict controls over credit card use (or hopefully no use at all)
YELLOW Signals

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

The _____ will reimburse members for actual expenses while on official _____ business.

Only expenses related to travel, individual meals and lodging are reimbursable. Personal telephone calls and lounge charges are the responsibility of each individual and should be paid at time of hotel/motel checkout. All air travel shall be coach class.

1. Each traveler should pay or charge for his/her own meals. (Meal charges should be reasonable.) Meals at _____ approved hotels/motels may be charged to the room. Refer to Specimen IV (i) for Travel Expense Voucher.

2. Receipts are required for meals. If paying for more than one, list names on ticket.

3. Car mileage must be reported on the Travel and Expense Voucher (figure mileage on round-trip from your home to location of meeting). Refer to Specimen IV (h) for Mileage Log.

4. Double occupancy for lodging whenever possible. Reservations are to be made by the _EA. To make reservations, please respond to the housing request that accompanies your meeting notice letter.

5. Bus, airport, limousine fares, and other forms of ground transportation as required:
   - Road, bridge, and tunnel tolls;
   - Parking garage
   - Reasonable gratuities (15% recommended)

6. Receipts are required for housing and commercial carrier tickets (airline, bus, Amtrak), airport transportation and parking.

7. Vouchers must be submitted within 30 days and must be completed on a day-to-day basis and signed by the traveler.

Mail to: _____ Accounting Department

Inquiries should be directed to _________________________, telephone no. (     ) __________________.
NEA Treasurers Training Free to NEA Members

This easy-to-follow online course features a simple step-by-step process described in straightforward language that minimizes technical jargon.

As with other online courses offered through the NEA Academy, Treasurers Training is available 24/7 to fit your busy life – you determine the schedule and the pace.

Basic Course
The Basic course consists of 7 modules, each of which is slightly less than 15 minutes, so the entire course takes less than 1.5 hours. The modular format allows you to go through the course one module at a time, or all at once, depending on your preference. A certificate is available upon completion of the course.

Advanced Course
An Advanced one-module course, also free to NEA members, provides the latest

The Treasurers Training Basic course provides critical information that all association treasurers and leaders need to know about accounting best practices:

- Basics of the treasurer’s role and fiduciary responsibilities
- Procedures for developing and strengthening internal controls
- How to improve governance of association finances
- Key operating policies, such as investment, conflict of interest, code of ethics, and whistleblower
- Recommended standards for reporting, dues reconciliation, and banking relationships
- And much more!

NEA’s Treasurers Training is a must for every education association leader – and free for NEA members. To sign up, go to neacademy.org, click on Treasurers Training, register, and you’re ready to go!
### SAMPLE YEAR OF THE LOCAL TREASURER

Based on a local association with a fiscal year commencing in September and ending in August.

<table>
<thead>
<tr>
<th>SEPTEMBER</th>
<th>OCTOBER</th>
<th>NOVEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Payment of SEA dues per remittance agreement</td>
<td>• Payment of SEA dues per remittance agreement</td>
<td>• Payment of SEA dues per remittance agreement</td>
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<tr>
<td>• Pay other bills for local association</td>
<td>• Pay other bills for local association</td>
<td>• Pay other bills for local association</td>
</tr>
<tr>
<td>• All dues for previous year must be paid and Dues in Arrears addressed</td>
<td>• First statement mailed to locals.</td>
<td>• Submit all nonmember information to SEA</td>
</tr>
<tr>
<td>• President to verify accuracy of Dues Agreement</td>
<td>• 10/15 If changing payment plan- Dues Remittance Agreement due to SEA</td>
<td></td>
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<tr>
<td>• Perform local audit</td>
<td></td>
<td></td>
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<tr>
<td>• Work with Membership Contact on dues deduction for payroll</td>
<td></td>
<td></td>
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<tr>
<td>• Work on Local Audit Questionnaire</td>
<td></td>
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<tr>
<td>• 9/30 Previous year adjustments due</td>
<td></td>
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<tr>
<td><strong>DECEMBER</strong></td>
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<tr>
<td>• Payment of SEA dues per remittance agreement</td>
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<tr>
<td>• Pay other bills for local association</td>
<td></td>
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<tr>
<td>• Verify payroll sheet from school district for accuracy</td>
<td></td>
<td></td>
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<tr>
<td>• Fair Share payroll deduction roster to school district payroll clerk</td>
<td></td>
<td></td>
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<tr>
<td><strong>JANUARY</strong></td>
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<tr>
<td>• Payment of SEA dues per remittance agreement</td>
<td></td>
<td></td>
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<tr>
<td>• Pay other bills for local association</td>
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<td></td>
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<tr>
<td>• Fair Share payroll deduction roster to school district payroll clerk</td>
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<td></td>
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<tr>
<td>• 1/15 Fair Share payroll deductions to begin</td>
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<td></td>
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<tr>
<td>• 1/15 IRS Form 990 due to IRS (for fiscal year ending August 31)</td>
<td></td>
<td></td>
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<tr>
<td>• Prepare and send out 1099 to vendors who received $600 or more (last business day of January)</td>
<td></td>
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<tr>
<td>• 1/31 Financial Questionnaire documents due to SEA</td>
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<tr>
<td><strong>FEBRUARY</strong></td>
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<tr>
<td>• Payment of SEA dues per remittance agreement</td>
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<tr>
<td>• Pay other bills for local association</td>
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<tr>
<td>• Fair Share payroll deduction roster to school district payroll clerk</td>
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<tr>
<td>• 1099 and 1096 forms due to IRS on last business day of February</td>
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<tr>
<td>MARCH</td>
<td>APRIL</td>
<td>MAY</td>
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<tr>
<td>• Payment of SEA dues per remittance agreement</td>
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<td>• Payment of SEA dues per remittance agreement</td>
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<tr>
<td>• Pay other bills for local association</td>
<td>• Pay other bills for local association</td>
<td>• Pay other bills</td>
</tr>
<tr>
<td>• Fair Share payroll deduction roster to school district payroll clerk</td>
<td>• Second Fair Share payroll deduction roster to school district payroll clerk</td>
<td></td>
</tr>
<tr>
<td>• Verify payroll sheet from school district for accuracy.</td>
<td>• Fair Share payroll deductions to begin 4/15</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JUNE</th>
<th>JULY</th>
<th>AUGUST</th>
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<tbody>
<tr>
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</tr>
<tr>
<td>• Pay other bills</td>
<td>• Pay other bills</td>
<td>• Pay other bills</td>
</tr>
<tr>
<td></td>
<td>• Attend a Treasurers workshop</td>
<td>• Submit new dues amounts to school district payroll department</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attend a Treasurers workshop</td>
</tr>
</tbody>
</table>
Sample Letter to Local Treasurers  
(To Local Treasurer, from State Business Manager)

Dear Local Treasurer:

You are the elected guardian of your local’s funds, and these funds are the lifeblood of its programs. Serving as Treasurer should be a challenging and rewarding experience. This is a key position in the organization. It will enable you to make an important contribution to the success of your association by taking an active part in the program planning and decision-making.

Financial considerations are an important and inseparable part of every association’s decision-making process. As Treasurer, you have a fiduciary responsibility over association funds and should be familiar with sound financial procedures and the legal obligations pertinent to your association.

Local treasurers are not expected to be experts in complex accounting or regulatory questions. The “Treasurer's Handbook” addresses the common needs of local treasurers. It takes into account the non-financial background of most association treasurers and was written with minimal technical language. Although this handbook may not address specific problems or concerns of your individual local associations, we are confident of its value as a resource to guide you successfully through the majority of financial situations.

Keep it close at hand for reference, study its contents and follow its advice. With the help of the “Treasurer’s Handbook” you can organize a bookkeeping system that can be passed from treasurer to treasurer for efficient continuity of leadership in your local association. Assistance is always available by contacting the state business office or by retaining the services of certified public accountant and/or attorney.

Feel free to contact me should you have questions, issues or concerns in these regards.

Sincerely,

Treasurer, State Education Association
Sample Letter to Local Treasurers
(To Local Treasurer, from State Business Manager)

March 2011

Dear Treasurer:

As you go through the year, please realize there are a couple of people you can always call Toll Free who appreciate your efforts and have dealt with problems such as the ones you will encounter. In fact, we feel the treasurer is one of the most important persons in the local.

As treasurer, your primary help is from ___________ in the Accounting Office. (s)he records all payments, reviews your local account, and sends dues billing rosters to you. Sometimes your questions will concern membership changes.

______________ is your contact person in the Records Office. However, if your UniServ Unit serves your local, contact the office secretary for questions concerning membership processing. If you feel that my attention should be directed to a particular matter, please call me.

I assure you that between __________, ____________, your UniServ Staff, and myself, we can support you in managing any problem, including the computer glitches up. So help is definitely available!

Thank you for reading this manual and attending to policies and procedures pertaining to membership and dues accounting. Good luck in your job this year!

Sincerely,
To: Local Association Treasurers

From:

Date:

Re: Sales and Use Tax Requirements – A Reminder

This memo is to bring you up to date on the ________ Sales Tax filing requirements.

1. When you purchase merchandise from a company (e.g. tee shirts, buttons, office supplies, etc.) for gifts or use (office supplies) that does not collect (State) sales tax, you must file a Consumer Use Tax Return and pay the sales tax.

2. When you purchase merchandise from a company (e.g. tee shirts, buttons, cups, etc.) for resale (sell to members, etc.) you must collect and remit the sales tax. You will file a Sales and Use Tax Certificate of Exemption with the vendor which will allow you to purchase items for resale without paying a sales tax. When the items purchased are sold, you collect the sales tax and remit it to the state.

In both instances listed above, you will have to register with the Tax Department. Call (______) _______ (Tax Department – Sales and Use) and tell them that you want to register and they will send you the necessary forms and instructions.

If you have any questions, ______________ will try to assist you.

Sincerely,
To: Local Association Presidents
Local Association Treasurers

From:

Re: Expense Reimbursement Rules Reminder

I have received several requests for an explanation of the new IRS advance expense reimbursement rules.

The new procedures require that advances can only be for specific association business and must be adequately substantiated and/or returned “within a reasonable time.”

Because of this IRS regulation, the association is required to submit a 1099 MISC to the IRS in the amount of the advance if a voucher is not received from the member within 120 days of the closing of the event for which the advance was issued. Please discuss this matter with the individual involved before filing.

It is recommended that your board adopt a reimbursement policy that requires adequate and timely substantiation by the member on a voucher and be sure to inform them why it is necessary.

If you have any questions concerning this matter, or need a MISC 1099, please call me at __________.

Sincerely,