



# 2015–2016 National PTA Official Back-to-School Kit

## PTA Finance Quick Reference Guide

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## The PTA Treasurer

### First Steps

#### Purpose and Responsibilities of the Treasurer

**Every PTA needs a treasurer to manage and supervise all of the financial aspects of a PTA. A treasurer has a broad range of responsibilities including:**

- Supporting PTA volunteers and members
  - » Assisting with planning for programs and other PTA activities
  - » Reporting and providing timely financial information to the PTA
- Managing PTA volunteers (e.g., chairing a finance, budget and/or fundraising committee if required by the bylaws)
- Tracking and recording all financial transactions
  - » Membership dues
  - » Donations
  - » Receipts
  - » Disbursements
- Keeping the PTA compliant with rules and regulations
  - » Reporting to government agencies
  - » Reporting to state PTA (through local channels)
- Custodian of PTA funds as elected by the members

PTA bylaws contain some of the specific responsibilities of a treasurer, and other responsibilities are specified in district or state PTA procedure manuals and brochures. National PTA provides this Quick Reference Guide to complement local, district and state materials.

#### Traits of an Ideal Treasurer:

- Dependable
- Excellent communication skills
- Detail-oriented
- Strong organizational skills
- A background in accounting practices and procedures
- Knowledge of volunteer and nonprofit financial management
- In-depth knowledge of PTA and its mission and objectives

#### Your Initial Tasks as Treasurer Include:

- Making sure that the books have been audited before accepting them.
- Ensuring the proper and complete transition of files and records, including the permanent records from the retiring treasurer. Ask about missing records at once.
- Becoming familiar with the duties outlined and any references to finances and budget in the PTA bylaws.
- Working with the outgoing treasurer to secure the signatures of new officers authorized to sign checks, and filing the signature cards with the bank.
- Checking on bonding and liability procedures.
- Studying this Quick Reference Guide and relevant areas of [IRS.gov](https://www.irs.gov).

#### Building a Finance Committee

The finance committee works to make sure the association is in good financial health, that its assets are protected, and that its resources are used appropriately.

Working with other PTA and community members to build a strong unit and to achieve goals can be a source of pride for members of the finance committee. Look for potential committee members everywhere, and make sure the committee represents the entire school community.

Potential members may include local, council, district, or region PTA members and leaders with expertise in the financial area. Also seek PTA members with the requisite experience to write grants, assist with sponsorships, help raise funds, and serve as consultants to the committee.

## Duties of the Treasurer

- Keep up-to-date on nonprofit financial issues by reading relevant materials and pursuing appropriate training.
- Assist in developing the budget.
- Manage the funds of the unit. Keep an accurate and detailed account, in the treasurer's permanent book, of all monies received and paid out. Balance the check book immediately when you receive a bank statement.
- Prepare a monthly bank reconciliation and submit copies to the secretary and president.
- Have the bank statement opened, reviewed and signed by a non-check signer.
- Submit a treasurer's report (found under additional resources) at regular meetings of the association. The report should include: the total balance on hand at the beginning of the month covered by the report, the separate amounts received and credited to the general fund, dues from state, national and any other PTA dues collecting entity in your state's structure, the special funds (if the association carries any special funds such as a scholarship or endowment), other receipts, itemized disbursements, the balance on hand in each fund, and the total balance on hand at the end of the month. Be prepared to answer all questions promptly, and have the records available at the meeting.
- Receive all monies for all accounts—local, state and national per capita dues, gifts, etc.
- Issue receipts of purchase (found under additional resources) for cash received.
- Deposit all monies in a bank approved by the executive committee/ board of the association in the name of "\_\_\_\_\_ Parent Teacher Association, \_\_\_\_\_ Treasurer." Night deposits and 24-hour banking can and should be used as needed.
- Monies should never be kept at the treasurer's home. Association funds should not be deposited in the personal account of the treasurer, nor should they be deposited in the school activity account. Do not allow other groups to run monies through the PTA bank account. A PTA may jeopardize its tax exempt status by assisting another organization to avoid compliance with tax laws.
- Pay all authorized bills by check. Two signatures should be required on all checks.
- Carefully manage cash flow, keeping an eye on the bank balance before authorizing payment of budgeted expenditures.
- Review association bylaws for the correct procedure for authorizing disbursement, e.g., pay bills by check – never by cash, obtain written authorization for purchases, obtain two signatures on checks (usually the president and treasurer), check-signers not related by marriage or other relationship, etc.

- Ensure the PTA is maintaining adequate financial management practices. See a Sample PTA Financial Management Checklist. (Found under Additional Resources)
- Never sign a blank check or a check made out to "cash."
- Record state, national or other dues portions of membership dues separately from the PTA's general funds, as "Funds Not Belonging to the Association."
- Remit state and national portions of dues through channels as designated in association bylaws. Provide a statement showing the name and address of the PTA and the number of members included in the remittance.
- Work with the membership chair and secretary to keep an accurate list of members.
- Prepare and arrange for annual audits, preserving all check requests and authorizations, receipts, bank statements, canceled checks and other supporting financial documents.
- Transfer all financial records to the incoming treasurer in a timely manner, including the last audit report, budget, ledger, register, authorizations, and bank statements with canceled checks, deposit slips, receipts/bills, meeting minutes, treasurer reports, and other supporting financial documents.
- Retain financial documents, such as canceled checks and paid bills, according to generally accepted accounting principles.

Note: All PTA monies and other assets, including checking accounts, savings accounts, and certificates of deposit, are the property of the PTA.

### Tip: Handling of Money by Other Members

Occasionally it may be necessary for other members to handle PTA money, such as dues from membership enrollment or returns from a fundraising project. Two people should always count the money, and both should sign the receipt verifying the amount. All monies collected should be given to the treasurer without delay.

## Contents of the Treasurer's File

- A copy of the PTA bylaws and standing rules, with sections authorizing disbursements marked
- A copy of local, state and national bylaws (and council bylaws if indicated)
- A copy of the current adopted budget, plus three years of past budgets
- Receipt book to acknowledge money received by the treasurer
- Checkbook to disburse funds as authorized
- Treasurer's account book in which to keep the financial records of the association

(may be an electronic file)

- Permanent Internal Revenue Service (IRS) tax information, including the following:
  - » IRS determination letter of tax-exempt status and copy of application for tax-exempt status (See Determination Letter of Federal Tax-Exempt Status available with the additional resources)
  - » Federal Employer Identification Number (FEIN), also known as EIN (Employer Identification Number)
  - » Copies of filed Form 990/990-EZ, 990-N, 990-T, or other required IRS forms
  - » Group exemption number (See Determination Letter of Federal Tax-Exempt Status available with the additional resources)
- Permanent state tax information, such as state sales tax correspondence, state identification numbers, and reports filed with the state, as required
- An up-to-date roster of the members of the association
- A copy of this PTA Money Matters Quick-Reference Guide and a completed copy of the financial management checklist. (Available with the additional resources.)
- Auditor's reports, checklists and recommendations for the past two years (older audits permanently filed)
- All cash records
- Blank forms (Check/Reimbursement Request, Deposit, Membership Dues and any school state of district required forms)
- General correspondence

## Treasurer's Required Reporting

### Treasurer's Monthly Written Report

Prepare and present a written treasurer's report every month. Submit copies to the secretary and president and retain one copy for your records. The PTA bylaws should provide that the treasurer report regularly to the association. The treasurer's written report should indicate what period of the fiscal year the report covers, the date it was prepared, and who prepared it. (See a sample monthly treasurer's report with the additional resources.) The report should not be adopted, but filed in the treasurer's file.

These reports should be given to the auditor or auditing committee during the auditing process. The auditing committee should report to the association at such times as the bylaws require. Usually, an audit occurs annually at the end of the fiscal year and before a new treasurer takes office.

### Treasurer's Annual Report

At the close of the PTA's fiscal year, the treasurer should close the financial records and prepare an annual financial report covering the entire fiscal year. The treasurer should give a preliminary annual report to the membership at the annual meeting. This report is for information only and is not officially adopted. The report becomes official after the audit has been completed and the audit report is officially adopted by the membership. Thus, the adoption of the audit report will be done at the first business meeting of the new fiscal year. The bylaws should provide how the audit is to be made. See the **PTA bylaws** for procedure.

The treasurer's annual report and the audit report are filed with the permanent financial records after the association has formally adopted the audit report. It is strongly recommended that a financial management checklist be filed with the annual financial reports. A sample annual report is provided in the additional resources section.

The treasurer's annual report and the audit report are filed with the secretary's minutes after the association has formally adopted the audit report.

## Dues

PTA dues include the national, state, district, council and local portions (some PTAs do not have district and/or council dues). National and state dues are established by the voting body at their respective PTA Conventions. District, council and local dues are established by the voting body at one of their respective meetings. An individual who pays dues to a local PTA also becomes a member of the national and state PTAs, as well as their district and council PTAs where appropriate. The portion of national, state, district and council dues is classified as “Dues Not Belonging to the Unit.”

The local treasurer works with the membership chair to forward the following items to the appropriate recipient:

- Dues not belonging to the unit
- The number of members
- T= Names and addresses of members
- Identification of the local PTA

As directed by the state PTA, dues not belonging to the unit shall be forwarded to the state treasurer without requiring specific authorization by the association. The state PTA will set the guidelines for how often units must submit dues. State PTAs must submit dues to the National PTA headquarters on a monthly basis. Dues should not be held for long periods of time at the local level. The treasurer records these amounts in the local treasurer’s book. Dues labeled as not belonging to the unit are not owned by the local PTA and are never recorded as part of the local PTA’s income when received nor as part of the local PTA’s expenses when forwarded to the state treasurer. They should, however, be recorded as accounts payable within your financial records.

Because each PTA has a unique set of activities, people belonging to more than one PTA must pay dues to each local PTA of which they are a member.

The state and national levels of PTA provide several services that benefit every local PTA. These services—including national and state child advocacy and government relations, leadership development, program planning and execution, and resource development—all incur costs that are largely borne by a small portion of the local membership dues. Every local PTA contributes its share for these expenses.

Since the PTA is an independent, private association, all monies raised from the local per-capita portion of dues and through additional efforts and other assets, including checking accounts, savings accounts, and certificates of deposit, are the property of the local PTA.

## The Budget

### Overview

The budget is an outline of estimated income and expenses for the year. A finance or budget committee usually has the responsibility of developing a budget for the PTA. This committee may be elected or appointed according to the PTA bylaws and usually consists of three or five members, one of whom is the treasurer, who may act as chair.

A budget is not only a guide but also a working document. It shows a plan for spending those funds to meet the needs of the unit’s yearly activities, for obtaining funds and also should allow adjustments when those estimates are not exactly accurate following the amendment guidelines established. A budget does not dictate what a local unit must do. It simply presents what a unit intends to do. Just because a program or fundraiser is listed on the budget does not mean that it is required to be done. However, if an item is not on the budget, it cannot be done.

### The Budget Process

#### Developing the Budget

Effective budgeting includes consideration of the PTA’s stated goals and planned activities, as well as the financial needs to achieve these.

The committee should study the previous year’s budget and treasurer’s reports to determine how well that budget met the association’s needs. Next, members should determine the projected financial requirements, taking into consideration the funds needed for the approved programs, projects and leadership development. They should determine the sources of funds to meet these requirements.

From this information, the committee then develops the annual budget. The budget should show the allocated expenditures for the year’s activities, as well as the funds on hand and the anticipated receipts. Expenditures should equal receipts. Budgets cover a one-year period. How the year is defined should be determined in the PTA bylaws. A sample budget can be found in the additional resources section.

#### Approving the Budget

After the budget has been drafted, the budget committee chair should present it to the PTA board/ executive committee for consideration and then to the PTA membership for approval. This presentation is made during the association’s general meeting where a quorum is determined to be present. A majority vote of the members present and voting is required for adoption.

The budget is presented item by item to allow for discussion and amendment of each section. Funds should not be spent until the budget is approved and funds have been released by a quorum of members at an association meeting.

The budget committee should also seek approval of a plan to provide sufficient funds in the budget to enable the association to carry on its program during the summer and prior to the start of membership enrollment in the fall.

### **Amending the Budget**

Since the budget is only an estimate of the planned expenditures for the year, it may be necessary, from time to time, to amend it. When there are additional expenses or a change in an allocated expenditure, the budget may be amended by a vote of the association at any regular meeting or at a special meeting called for that purpose.

To amend a budget item previously adopted, it is necessary to have a two-thirds vote; with previous notice, a majority vote.

### **Approval of Expenditures**

The adoption of the budget authorizes the treasurer to pay for routine expenses covered in the budget only if such authority is given to the treasurer in the local PTA bylaws. If the local PTA bylaws do not provide this authority, the treasurer shall pay bills only when the board/executive committee or local PTA members vote to expend the money, and then only upon presentation of properly signed vouchers, as required in the state bylaws.

All expenditures must be reported to the board/executive committee and included in the Monthly Treasurer's Report (available with the additional resources) to membership. This report should display how the amounts expended to date compare with corresponding items in the approved budget.

Any additional expenditure not provided for in the budget must be approved by the membership. The Monthly Treasurer's Report should be attached to the minutes of the meeting at which it is presented. Changes in the budget, whether in income or expenditures, must be presented as amendments to the budget.

### **Restricted Funds**

While it is a common PTA rule that one board cannot obligate the next year's board, there is one exception to that rule. The IRS has strict rules on restricted funds. When money is raised for a specific purpose, (technology, a new playground, etc.), the money raised must be spent on that purpose. It does not matter if it is one year, five years, or 25 years from now. If a PTA wishes to use the restricted funds for an alternate purpose, the donors must be notified and given the option to have their donation refunded to them. However, if you advertise that money raised is going towards something as well as other PTA projects, the collected funds are not restricted and your board and future boards are able to use that money for whatever budget purpose they desire.

### **What to Do With Excess Funds at the End of the Year?**

There is no ruling from the IRS or PTA that limits the amount of money that a PTA may carry over to the next budget year. No PTA board has the authority to write checks to the school or the principal for unbudgeted items to "clean out" the accounts. Expenditures must be approved by the general membership at a meeting. Every PTA should try to leave sufficient funds for leadership training for new board members, startup expenses for the new school year, etc. Funds not spent in one budget year should be included in the new budget.

## Banking

### Bank Accounts

All PTAs having bank accounts are required to provide the bank with an IRS Employer Identification Number (EIN). (Do not use any individual's Social Security number.) The section on IRS Form SS-4 (available in the additional resource section) describes how to acquire this number.

### Savings Accounts

In planning the budget, it is not uncommon for PTAs to have small contingency savings accounts for the following reasons:

- Efficient management of funds (funds earn interest until they are expended)
- Reserve to carry on programs during the summer and fall until dues are collected
- Monies to finance unexpected but approved projects or programs

### Emergency Reserve Fund

- The emergency reserve fund is considered an integral part of each PTA's planning and budget process. The emergency reserve fund is intended to serve as a means to retain financial stability in the event of an unforeseen development such as unplanned expenses arising from a project or an unexpected increase in inflation.
- As a rule, a healthy reserve is between one-half to one full year's average expenditures.

## Handling Fundraising Receipts and Expenditures

- When a PTA is planning a fundraising activity that will involve large amounts of money, the treasurer should arrange to deposit the money in the bank as soon after the conclusion of the project as possible. The chair of the activity should be responsible for seeing that the treasurer receives all revenue immediately after completion of the activity. The treasurer and another person should count the monies received, and both should sign a cash counting sheet (Cash Counting Sheet for Events) verifying the amount. A receipt should be given to the chair for the entire amount. Even if the project is a continuing one, the money should be deposited daily in the PTA's bank account.

- Night deposits and 24-hour banking can and should be used as needed. When necessary, the treasurer should contact local police authorities beforehand and ask for an escort to the bank. If the treasurer contacts the bank about the night deposit in advance, they will be given a lock bag to place in the night depository. Never deposit any money in anyone's personal account or in the school account, and never leave the money in the school building or in someone's home.
- All checks that are to be deposited should be marked "For Deposit Only to the PTA, Account # \_\_\_\_\_" and signed by the treasurer with his or her title. A stamp with this information may be secured at the time the account is opened. Duplicate deposit slips should be made so that the treasurer will have a copy to retain for the record.
- To keep accurate records, the treasurer should be given itemized bills, sales slips, etc., from the fund-raising activity to pay by check. These expenses should never be paid with the cash from the activity.
- Within a few days of the conclusion of the activity, the treasurer or fundraising chair should complete a detailed report of all receipts and expenditures and the profit from the project. That report should be presented to the board/executive committee and the membership at the meeting following the activity.

## Check Request (Voucher) System

A PTA may use a general check request (voucher) system for its expenditures. The check request should include the date, a brief description, amount to be paid and budgeted line item. The request should be signed by the requester and the president (local procedures may vary so refer to your bylaws).

After the check is generated, either enter the check number on the check request or attach a check stub. The invoice should be stamped "paid." Only original invoices should be approved for payment.

These records will then be available to assist the audit committee in the completion of its work at the end of the PTA fiscal year.

## Deposits and Joint Fundraising

Because a PTA is a private association, PTA funds should be deposited only in the PTA account, not in a personal account, a school account, or any other organization's or group's account. All money deposited in a PTA account will be considered PTA funds by the IRS and must be reported as such. A PTA should never deposit school or school-related money in its account.

If a PTA sponsors a project or program in cooperation with the school, all funds should be accounted for and separated prior to the immediate deposit of the PTA portion into the PTA bank account.

A PTA is a separate legal entity and not a school organization. It is imperative that this distinction is clear. PTAs do not share their EIN numbers, their sales tax exemption, or their banking details with schools, principals or school districts. See the sample letter to clarify schools versus PTAs (available in the additional resource section) if you find you need to reference this information with your school or other entity.

## Electronic Commerce

### Overview

#### Introduction

Internal controls should be the cornerstone of all your financial transactions, including any e-commerce in which your PTA participates. As most of these transactions only require one person to create, the risk of fraud increases due to lack of checks and balances. Ensure that you have proper internal controls in place to mitigate that risk.

Please ensure your unit is following your state PTA's policies and procedures surrounding all electronic banking options discussed in this document.

#### Best Practices

##### **There are several factors necessary for creating effective internal controls:**

- Management/board of directors commitment
- Sound policies and/or procedures regarding the segregation of duties
- Compliance with and review of the policies/procedures in place

##### **Effective internal controls include the following:**

- Policies/procedures should be in writing
- Workflow should enforce proper segregation of duties:
  - » A person(s)\* who does not have the authority to approve payments receive(s)\* invoices
  - » The person(s)\* who can approve payment should not be able to cut checks or enter invoices into the accounting system

- Review on a monthly basis all bank statements and bank reconciliations by someone who does not have access to authorize or enter invoices
- Maintain a filing system for proper and complete storage of all necessary documentation
- Be organized and consistent
- Review internal control policies and procedures annually
- Ensure proper training for personnel or volunteers

#### Risks

##### **Regardless of how automated the process, without effective internal controls in place, there will be opportunity for fraud to occur. Some examples of ineffective internal controls include:**

- Failing to separate functional responsibilities of authorization, custodianship and record-keeping
- Allowing unrestricted access to assets or sensitive data
- Failing to reconcile assets with the appropriate records
- Allowing unauthorized transactions
- Failing to implement controls because of the lack of qualified person(s), including parents, volunteers, members or employees

For fraud to occur, only three things are needed: opportunity, pressure and rationalization. This is called The Fraud Triangle.

If you believe that fraud has occurred, which generally involves stolen or misappropriated assets like cash, property, or equipment; you should contact your state PTA.

### Online Bill Payment

Many PTAs face challenges in the accounts payable process because volunteers live in different areas or have varying schedules. Reaching the appropriate people to approve payments and write checks poses a major challenge.

With the use of online bill payment, these challenges can be eliminated while still maintaining effective internal controls.

### Benefits

- Helps improve visibility and transparency of the accounts payable process through automation and electronic record-keeping
- Helps eliminate lost or misfiled documents
- Reduces process and data entry errors through document capture and financial process automation
- Eliminates check printing, signing and mailing
- Allows access to financial documents anytime, anywhere
- Helps eliminate check fraud
- Forces second approval of vendor payments
- Can increase productivity and lower costs through paperless document imaging, automated bill routing, and integrated online bill payment

### Risks

Even if proper segregation of duties of authorization, custodianship, and record-keeping are in place, fraud could still occur the same way it could if using checks. These risks are merely mitigated if proper internal controls are in place.

### Possible Service Providers

- **Anybill**
- **Bill.com™**
- **Intuit Quicken Bill Pay**

These suggested services have all the benefits listed above.

### Online Banking

Convenience is touted as one of the major advantages of banking online, but it is not the only one. There are many reasons to bank online. Here are just a few benefits to carrying out your banking activities this way.

#### Benefits

- Convenience – Online banking is a 24-hour service so volunteers can carry out banking activities anywhere and anytime they want
- Allows Mobility – Online banking can be done anywhere, as long as you have an Internet connection
- Real Time Information – Allows access to real-time account information
- Online Statements – Allows information on account activity before the physical paper statement is mailed

#### Recommended Account Controls

- Train volunteers/employees on policies and procedures
- Consult with your bank to see what security options are available
- Prohibit the use of shared user names and passwords
- Assign two individuals as administrators
- Set user online access levels by roles and responsibility
  - » For example: the person who enters transactions and cuts checks should not have access to approve online payments
- Review user online access levels regularly
- Delete online user IDs as soon as a person resigns his or her position
- Set up alerts to notify persons of payments initiated or deposits made
- Allow read-only access to individuals who should be monitoring the bank account

#### Recommended Security Settings

- Install and maintain an updated antivirus application
- Keep your passwords and user IDs safe and secure
- Select a strong password and do not disclose your password or Internet banking ID to anyone
- Never respond to or open Internet links or attachments in unsolicited e-mails, especially ones that appear to come from your bank

## Using Credit Cards for Bill Payments

When allowing employees or volunteers to use a PTA-issued credit card, you always run the risk of fraud and misuse. By having strong internal controls, you can help to mitigate these risks while also maintaining accurate record-keeping.

### Best Practices

- Have credit card policies and/or procedures in place. These policies and/or procedures will state by whom and for what the credit card can be used as well as cardholder responsibilities.
- Have new cardholders sign a statement saying they have received the credit card and have read and agree to the terms and conditions of the credit card policy.
- Get a credit card that will allow limits by user. Limits should be set by management/board of directors.
- Set up an approval process to make sure all credit card receipts are received and all charges have been approved.
- Make sure that all expense reports are signed and dated by the card holder as well as the designated approver.
- Make sure the cards of all former employees and volunteers are destroyed and deactivated immediately upon termination.
- Assign a person who does not have a company card to review receipts and reconcile them to the credit card statement.

View a Sample Credit Card Policy in the additional resources.

## Use of ATM Debit, Gift, or Deposit Only Cards

National PTA highly recommends that the use of debit or gift cards not be used as a form of payment. However, deposit only ATM cards are acceptable if your bank offers this service.

### Risks of Using Debit/Gift Cards

- If lost or stolen, your bank account could essentially be drained before you even realize the card is gone.
- When multiple volunteers or employees have access to a debit card, it can be difficult to track the purchases.
- Accounting is more difficult to maintain, since individual receipts are the only record of the purchase.
- Gift cards are not traceable once purchased.

### Deposit Only ATM Cards

Deposit cards can be requested for volunteers/employees, which allow them to make deposits only. Each card has a unique card number and individual person identification number (PIN).

Deposit cards can be used at any deposit-taking ATM that is affiliated with your bank.

Contact your bank to locate an ATM near you.

## Accepting Credit Cards

The ability to accept credit and debit cards as payments for local units is increasing in demand and becoming more widely available through use of mobile devices such as smartphones or tablets.

When a local PTA decides to accept credit cards as a form of payment, a review of internal controls will need to be conducted to ensure policies and procedures are acceptable and in line with best practices.

**Please ensure that you follow your state's policies as many states do not permit the use of credit cards.**

### Best Practices

- Do not transmit cardholder's credit card data by e-mail, mail or fax.
- Do not store credit card data for customers on paper or electronically in an unsecured area.
  - » An example of a secure area includes a locked file cabinet or safe
- Store all physical documents containing credit card data in a locked drawer, locked file cabinet, or locked office which the PTA solely controls.
- Do not store PIN or CVV2/CVC2/CID numbers.
- Do not share user ID's for system access.
- Never acquire or disclose any cardholder's data without the cardholder's consent.
- Ensure that the person taking the credit card information and/or processing the transaction is properly trained in best practices.
- Each person who has access to credit card information is responsible for protecting it.
- Keep enough documentation, for example, signatures of cardholders, for each transaction to ensure that disputed charges do not become a problem.
- When a refund is necessary, the refund must be credited only to the same account from which the purchase/donation was made.

### PTA's Responsibilities

PTAs accepting credit cards as payments are responsible for complying with all rules and procedures required to stay in compliance with **Payment Card Industry Data Security Standards (PCI DSS)**. ([https://www.pcisecuritystandards.org/security\\_standards/](https://www.pcisecuritystandards.org/security_standards/))

These standards are very important for PTAs to follow, because if followed correctly they will protect the PTAs from issues of liability and fraud.

The PCI DSS is a set of requirements designed to ensure that ALL companies that process, store or transmit credit card information maintain a secure environment.

For frequently asked questions regarding PCI compliance, go to: <http://www.pcicomplianceguide.org/pci-faqs-2/>

## PayPal™ Nonprofit Services

### Getting Started

- Sign up for a PayPal Business account and select Nonprofit as the business type, and Charity as the category.
- The following information will need to be submitted through the Resolution Center once you log in:
  1. Evidence of tax-exempt status
  2. Bank statement or voided check in your association's name. (This is needed so that the funds can be deposited into the association's bank account when donations are received)
  3. PayPal email account – We suggest setting up a new email address and having the mail automatically forwarded to several individuals
  4. Contact information - This should be someone who does not have access to the online reports or the ability to charge credit cards
  5. Description of your association and type of payments it wants to accept
- Set up users and their user account access privileges.
  - » This can be done by going to Profile under My Account tab and choosing "Manage User"
  - » Go to <https://www.sandbox.paypal.com/us/cgi-bin/webscr?cmd=xpt/Customer/popup/PrivilegesInfo> to see what access privileges are available.

## Cloud Computing Storage

Cloud storage is a service that allows customers to save data by transferring it over the internet or another network to an offsite storage system maintained by a third party.

The use of cloud storage provides many benefits, but should be used with caution. The following is a list of some things you should consider when implementing cloud storage. Not all services are the same so make sure to find one that meets your needs.

### Considerations When Choosing a Provider

- Does the cost, if there is one, fit into the budget?
- Does the provider meet your needs in availability, security and size?
- Does the provider offer backup or data recovery services?
- What liability does the provider have in case of data loss?
- Is it easy to maintain security settings and access controls by user, such as read, write, save and delete functions?

### Benefits

- Low to no fees
- Unlimited data storage available
- Service providers offer backup and recovery systems
- Access to data files anywhere you have Internet access
- Mobile capability available
- Does not require installation on a local computer
- User access can be limited to files and roles such as the ability to read, write, add and delete files

### Risks

- Provider may be shut down and all data lost if the service provider violates state or federal law
- You have less control of the data because you no longer physically “own” the data. Once on the cloud it is on the service providers servers, and if they were to go out of business or shut down all data could be lost
- Must have Internet access to access files

Although service providers offer backup of data, it is suggested that you create a backup schedule for backups to physical devices such as USB drives or local hard drives as you feel necessary. This will limit down time in the event that the service provider is experiencing technical difficulties, is shut down, or goes out of business.

### Best Practices

When files are shared between multiple people or departments, things often get messy so it is best to set up a filing structure that will keep your data organized and easy to find. Below are some best practices when setting up online file storage.

- Determine the folder hierarchy
- Determine folder direction to avoid redundancy
- Set up user access rights. These limits can add, create or delete files
- Create file naming guidelines to make sure that file names are consistent so that information can be located quickly

### Sample File Structure

- 2012 Accounting
  - » Bank Accounts
    - › Statements/Reconciliation
    - › January
    - › February
- Accounts Payable
  - » Invoices
    - › ABC Company
    - › XYZ Company

### Possible Service Providers

- **Dropbox™**
- **Box**

## PTA Audit

### Overview

Auditing involves examining financial records and transactions to ensure that receipts have been properly accounted for and expenditures have been properly authorized and recorded in minutes in conformity with PTA bylaws, standing rules and budget limitations.

PTA bylaws indicate when an audit is to be made, its procedure, and when it should be reported to the membership. Financial records should be audited at least once a year – some state PTAs require two or more audits annually (check your bylaws). Books should also be audited if a financial officer resigns (see Final Steps before Leaving Office Checklist in the additional resource section), before the new officer assumes his or her duties, and at any other time deemed necessary.

The process for selecting/electing individuals to serve on the internal audit committee or for retaining a professional firm (with nonprofit accounting experience) will also be found in the bylaws of the PTA.

Laws in several states require 501(c)(3) organizations to hire a professional firm to complete the audit when the gross income exceeds a certain amount. Be sure to check the laws in your state.

### The Purpose of an Audit

The purpose of an audit is to provide reasonable assurance that an organization's financial statements are free of material misstatement and to ensure that receipts and expenditures, as authorized in the minutes, are in conformity with PTA bylaws, standing rules and budget limitations.

An audit with a "clean" opinion assures the membership that the association's resources/funds are being properly accounted for and managed within the regulations established for their use.

### Compiled Financial Statements

Compiling financial statements is the most basic level of service provided by CPAs, is less expensive, and takes less time. The CPA receives financial information from the client, reviews it for obvious errors without verifying the facts or tracing the transactions, and prepares financial statements using the information provided. The CPA might have to perform additional accounting services, such as creating a general ledger or assisting with adjusting entries, before the financial statements can be prepared. Upon completion, a report is issued that states a compilation was performed in accordance with the American Institute of Certified Public Accountants (AICPA) professional standards, but no assurance is expressed that the statements are in conformity with generally accepted accounting principles.

### Reviewed Financial Statements

- Reviewed financial statements require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation.
- Reviewing financial statements is in-between compiling financial statements and a full audit, in time, expense and assurance.
- Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with generally accepted accounting principles.

### Audited Financial Statements

- Auditing financial statements is the most expensive and most complete auditing service CPAs provide. This would be most appropriate for state PTAs, very large PTAs or PTAs that are required to obtain external audits due to requirements from grantors.
- This type of service provides the highest level of assurance.
- In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs confirmation, verification and substantiation procedures.
- When the audit is complete, the CPA's standard audit report states that an audit was performed in accordance with generally accepted auditing standards, and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations in conformity with GAAP. This would be considered a "clean" opinion.

### Preparation for a Financial Review/Internal Review

For clarification purposes, a financial review represents an internal process performed by two or more members of the financial review committee or their designees. An audit represents an extensive external process performed by a certified public accounting (CPA) firm for a fee.

The first step in the financial review process should be the appointment of a financial review committee. This committee should be made up of members who do not have signature authority over the bank account nor are a relative to a person with signature authority. Check with your local bylaws for any additional requirements.

Financial records should be put in order for the financial review shortly before the end of the term of office or the end of the fiscal year. The outgoing treasurer cannot pay bills after the books are closed for financial review. Upon assuming office, the incoming treasurer may deposit funds in the PTA bank account. It is recommended that during the financial review process, expenditures within an adopted budget be limited to those of an emergency nature. The financial review should be completed as quickly as possible.

**The treasurer shall deliver the following to the reviewer:**

- A copy of the last financial review report
- Checkbook and canceled checks
- Bank statements and deposit receipts
- Treasurer’s book or ledger
- The annual financial report
- Itemized statements and receipts of bills paid
- Check requests
- Copies of board, executive committee, and association minutes that would include an adopted budget, as well as any amendments that were approved during the year
- Current bylaws and standing rules
- Any other information requested by the financial review committee

**Financial Review Procedure**

1. Start the financial review with the records posted after the last audit. Check to see if the amount shown on the bank statement corresponds to the starting balance recorded in the checkbook and ledger.
2. Complete a sample test of transactions. The size of this sample should be based on the size of the association. If mistakes are found, the sample should be broadened to take in more transactions. It may be deemed necessary to review all the transactions of a PTA. You should consider retaining the services of an external auditor if nearly all of the transactions are reviewed due to errors or concerns regarding accuracy.

**Some items to look for:**

- Monthly bank reconciliation
  - Unexplained reconciling items
  - Unusual endorsements on checks
  - A match of check endorsements to payees
  - Disbursements not supported by invoices or other documentation
  - Blank checks secured in a safe place
  - Deposit ticket dates timely with dates received by bank
  - Timeliness of deposits based on known dates of events
  - All invoices paid by check and not cash
3. Make certain that state and national portions of the membership dues have been kept separate from other receipts and forwarded immediately to the state office.
  4. Make certain that money collected for a specific purpose (special projects, gifts, scholarship funds, council dues, etc.) has been so disbursed.
  5. Check the treasurer’s reports and annual report for accuracy.
  6. After any errors have been corrected by the treasurer, and the president is satisfied that the financial accounts are correct, sign and date the annual report using a different color ink: “Examined and found correct. (Name), (Date).”
  7. If all is in order, the financial review committee or auditor should prepare a statement, and the auditor, or each member of the financial review committee, should sign it.

A sample statement might read, “The auditing committee has examined the records of \_\_\_\_\_ PTA for the period of (time covered) and found them to be correct. Balance on hand: \$ \_\_\_\_\_.” (Signatures of committee)

The committee or reviewer might wish to use the sample financial review form.

8. The financial review committee also must submit a report in the event that there are not adequate records available to conduct a proper accounting of the association's funds.

A sample statement might read, "The financial review committee has examined the records of \_\_\_\_\_ PTA and found that more adequate accounting procedures need to be followed so a more thorough financial review can be given." The financial review committee should indicate the information that is needed.

9. The financial review must be officially adopted by the association and must be included in a completed annual report covering the association's entire fiscal year. If the report states that additional information and verification is needed, the requested information should be provided by the treasurer.
10. If the validity of the financial review is questioned, an independent certified public accountant (CPA) should be engaged. At any time during the process, the state PTA may be contacted for information or assistance.

## Contracts, Incorporation and Insurance

### Contracts

In the course of a year, a PTA may enter into a variety of contracts. For instance, a PTA may contract a band for a dance or purchase supplies for a fundraising venture. The PTA assumes the responsibility to comply with the terms and conditions of the contract and to pay the stated sum. The fact that an activity is not a financial success or that the PTA has insufficient funds to meet its obligation has no effect on the responsibility assumed.

#### Before you enter into a contract on behalf of your PTA, consider the following:

- Has the membership approved the project?
- Does the president have authorization from the board/executive committee to negotiate a contract?
- Have all contracts been received in writing?
- Are the terms and conditions of the contract understood? Have they been reviewed by legal counsel, if needed, and agreed to by the board/executive committee?
- Is the length of the contract limited to the term of the participating officers, and does not encumber future boards?

- When entering into a contract, the PTA president is responsible for the agreement and should clearly identify that it is the PTA entering into the contract and not the president as an individual. The signature on a written contract should read, "\_\_\_\_\_ PTA (or PTSA or council or district) by: John Doe, President."

It is preferable to require two signatures on a contract (the president's signature plus another officer's).

#### Contract Tips

Remember, if there is any question about the terms or conditions of the contract, the proper time to seek advice is before the contract is signed.

Verbal contracts can also be binding so be careful when talking with vendors.

### Incorporation

#### Incorporation

PTAs involved in various activities must recognize the responsibilities and liabilities of the officers and members in conducting the affairs of the association. PTAs may incorporate under state laws in order to establish protection for and limit the liability of individual members. Some state governments have passed volunteer protection laws that may also protect a PTA's members to a degree.

If your state has umbrella coverage in place, then incorporation at the unit level is not required. However, if your state does not have umbrella coverage, then units must incorporate individually. Consult your state PTA office for additional information before pursuing incorporation.

### Insurance

#### Bonding Insurance

Although bonding may not be required in the bylaws of the association, it is in the best interest of the PTA for the treasurer and all other individuals authorized to handle funds and securities of the association to be covered by a fidelity bond in the amount determined by the executive committee. The expense of such insurance should be purchased by the PTA.

A fidelity bond covers losses sustained by a PTA through any fraudulent or dishonest act or acts committed by any of the employees or non-compensated elected officers and their successors or any non-compensated person who is authorized by an officer to handle PTA monies acting alone or in conspiracy with others. Such a policy should be secured from a reliable insurance company.

## Liability Insurance

### General

PTAs should consider their need for liability insurance when there are projects or activities that may result in potential hazard for PTA members, schoolchildren, or other third parties.

Commercial general liability insurance provides coverage for a PTA's legal liability arising from bodily injury, personal injury (false arrest, libel, slander, and other defined injuries), advertising injury, and property damage that results from the PTA's activities and operations. Such insurance coverage may be purchased either on a continuous, year-round, comprehensive coverage basis, or on a one-time basis for special events. Generally speaking, school district liability insurance does not extend to PTAs or their activities.

### Auto

Before undertaking responsibility for transporting schoolchildren in private automobiles, PTAs should investigate the PTA and school district insurance policies, as they may apply to the liability of parent drivers on field trips/activities.

### Directors and Officers

Directors and officers (D&O) liability insurance provides protection for claims arising out of the wrongful acts of directors and officers (in making policy and managing the affairs of the unit) that do not fall under the definition of physical injury. Examples of D&O liability claims include:

- Discrimination based on age, sex, race, national origin, disability, etc.
- Improper employment termination
- Breach of contract, e.g., contract disputes with customers, vendors, suppliers, or service providers
- Mismanagement of association funds

D&O liability insurance may provide coverage for the defense costs resulting from covered claims.

### Occurrence or Claims Made Insurance Coverage

Under a claims-made policy, a claim is covered under the insurance policy in effect when the claim was made against the insured, no matter when the injury occurred. Under an occurrence policy, the claim is covered under the policy that was in effect at the time of the event, even if the claim is brought many years after the injury has happened.

## Federal Requirements

### Federal Tax-Exempt Status – 501(c)(3) Organizations

Most PTAs are classified as tax-exempt 501(c)(3) public charities under the Internal Revenue Code (IRC).

One major advantage for organizations that are exempt under Section 501(c)(3) of the IRC is that contributions to such organizations may be deductible on donors' federal income taxes. In addition, PTA members who receive only minimal reimbursement for their PTA-related expenses may be able to treat the balance as a charitable gift. Examples of possible expense deductions include transportation, telephone calls, meals and lodging. Consult current IRS rulings for allowable deductions.

**It is very important that PTAs do not jeopardize their tax-exempt status. They must not violate certain restrictions that apply to their 501(c)(3) classifications:**

- As a 501(c)(3), a PTA must be organized and operated exclusively for charitable, educational, or scientific purposes (the mission as defined in bylaws).
- A PTA's resources and funds cannot be used for the private benefit of an officer or director (private inurement).
- Upon a PTA's dissolution, its assets must be distributed for one or more of those defined exempt purposes.
- A PTA cannot engage in any political activity. Associations that are classified as 501(c)(3) are forbidden to support candidates for public office.
- A PTA can only engage in an insubstantial amount of lobbying activity. Refer to the section on lobbying for more information.

**In evaluating whether or not an organization meets the qualifications for exemption under Section 501(c)(3), the IRS evaluates according to the following:**

- Organizational test—The IRS examines bylaws, articles of incorporation, etc., to determine the purpose of the organization/association and for other provisions that address compliance with the restrictions listed above.
- Operational test—The IRS evaluates the organization's operations, its activities, the sources of its income and receipts, and the disposition of funds with regard to the restrictions listed above.

## Employer Identification Number and IRS Form SS-4

Every PTA must acquire an IRS Employer Identification Number (EIN, or FEIN [Federal Employer Identification Number]). That number is a part of the permanent record of the local PTA and should also be on file in the state PTA office. Check with the state PTA office or the previous treasurer for the PTA's EIN. This number should be used for bank accounts and will be required for filing IRS Form 990.

The PTA may acquire an EIN by filing Form **SS-4 (Application for Employer Identification Number)** (<http://www.irs.gov/uac/Form-SS-4,-Application-for-Employer-Identification-Number-%28EIN%29>) with the IRS. The name of the local, council, or district PTA should be used in filling out the application. The school address may be used if only one school is involved. The only place an individual's name should appear is on the signature line where the officer making the application must sign. The "reason for applying," as requested on the form, should be completed "for banking purposes only." Check with your state PTA office to ensure that they have not already applied for an EIN for you PTA already.

Because some state PTAs secure the EIN for their PTAs, be sure to check with your state PTA office or state treasurer before filing Form SS-4.

If your PTA does not have an EIN and needs one immediately, call the IRS at (800) 829-4933 (complete the Form SS-4 before calling). The IRS will issue EINs to authorized persons over the phone. No fee is required.

## Determination Letter of Federal Tax Exempt Status and IRS Form 1023

PTAs can generally qualify for exemption from federal income tax. Some state PTAs have secured from the IRS a group or blanket federal income tax exemption under Section 501(c)(3) of the Internal Revenue Code. This group or blanket exemption applies to the state PTA's local units and other constituent bodies. In other states, each local PTA must secure tax exemption for itself from the IRS. Check with the state PTA office if this information is not known.

If tax exemption has not been secured for the PTA, the treasurer or another officer must apply for recognition of tax exemption by completing IRS Form 1023 in the name of the PTA and returning it to the IRS with a check in the amount of the required fee. A PTA must have an EIN number before it may file Form 1023. The IRS will issue a letter stating its determination of tax-exempt status. This determination letter of tax-exempt status from the IRS should be part of the permanent records of the PTA. It is advisable for the state PTA office to have a copy for its file. Once approved, a tax exemption continues in force until revoked by the IRS.

*Note: Form 8718 (User Fee for Exempt Organization Determination Letter Request) has been incorporated into Part XI of Form 1023. A separate form is no longer necessary.*

Refer to IRS Publication 557 (Tax-Exempt Status for Your Organization) for the rules and procedures for obtaining exemption from federal income tax.

By law, an application for determination of tax-exempt status submitted to the IRS must be made available for public inspection upon request, as must any papers submitted in support of the application and any letter or other document issued by the IRS in response to the application. The IRS is required to impose penalties for failure to comply with this provision of the law unless failure to do so was due to reasonable cause.

## Private Inurement

Private inurement is when an individual of power or influence within the nonprofit enters into an arrangement with the nonprofit and receives benefits greater than he or she has given. Under no circumstances should a PTA enter into such transactions. The PTA will risk intermediate sanctions (significant excise taxes) and loss of tax-exempt status.

## Information Return of Organization-Exempt from Income Tax IRS Forms 990 and 990-EZ

Local, council, or district PTAs are required to file an annual information return of their income and expenses on **Form 990** (Information Return of Organization Exempt from Income Tax) and other related information forms provided by the IRS, such as Schedule A and Form 990-T. The IRS normally sends such forms to tax-exempt associations, but the responsibility of filing lies with the PTA treasurer, whether or not such forms are received.

Once your PTA has filed the appropriate type of Form 990, send a copy to your state office through channels.

### 990-N/E-Postcard

PTAs whose annual gross receipts are \$50,000 or less for tax years ending on or after December 31, 2010, are required to submit Form 990-N, also known as the e-Postcard, electronically unless they choose to file a complete Form 990 or Form 990-EZ.

The e-Postcard is due every year by the 15th day of the fifth month after the close of your tax year. For example, if your tax year ended on December 31, the e-Postcard is due May 15 of the following year. If the due date falls on a Saturday, Sunday, or legal holiday, the due date is the next business day. You cannot file the e-Postcard until after your tax year ends. If you do not file your e-Postcard on time, the IRS will send you a reminder notice, but you will not be assessed a penalty for filing the e-Postcard late.

**Completing the e-Postcard requires the seven items listed below:**

- Employer identification number (EIN), also known as a Taxpayer Identification Number (TIN)
- Tax year
- Legal name and mailing address
- Any other names the organization uses
- Name and address of a principal officer website address, if the organization has one
- Confirmation that the organization's annual gross receipts are normally \$50,000 or less for tax years ending on or after December 31, 2010
- If applicable, a statement that the organization has terminated or is terminating (going out of business)

To file the e-Postcard go to <http://epostcard.form990.org/>. Keep a copy of the information filed for the PTA's permanent records.

**990-EZ**

If the PTA's annual gross receipts are normally more than \$50,000 but less than \$200,000, and total assets are less than \$500,000, the PTA has an obligation to complete and file Form 990-EZ, whether or not it received the form in the mail. Refer to the Instructions for IRS Form 990-EZ for further instructions.

- Forms 990 and 990-EZ are due by the 15th day of the fifth month after the close of the PTA's fiscal year. For example, if the PTA's fiscal year-end is June 30, the form is due November 15.
- If the return is filed late, a penalty of \$20 a day may be charged. The penalty is not to exceed the lesser of \$10,000 or 5% of the association's gross receipts for the year. Also, a penalty may be charged if the return is filed incorrectly or incompletely.
- If the PTA is required to submit a completed Form 990 or 990-EZ, it must submit a Schedule A as well (501(c)(3) organizations are not required to file Schedule A, but must file a Form 990 or 990-EZ as required).
- If the PTA has more than \$1,000 in gross unrelated business income, it must file a Form 990-T as well.
- If the PTA has made significant changes to its bylaws (e.g., change in fiscal year, change in governance/structure), a copy of the updated bylaws should be submitted to the IRS with the completed Form 990 or 990-EZ.
- If the PTA wishes to request an extension of time to file Form 990 or 990-EZ, it should file a Form 8868 filed with the IRS before the deadline determined by the close of the PTA's fiscal year.

**Tax Exempt Revocation**

An organization that fails to file required e-Postcards or information returns – Forms 990 or 990-EZ - for three consecutive years will automatically lose its tax-exempt status. The revocation of the organization's tax-exempt status will not take place until the filing due date of the third year. If this happens to your PTA, you can find resources at [PTA.org/taxhelp](http://PTA.org/taxhelp) to guide you through the next steps.

**Public Inspection Requirements**

Any PTA that files a Form 990, 990-N, or 990-EZ must make the return available for public inspection during the three-year period beginning with the date it is due, including extensions. All parts of the return and all required schedules and attachments other than the schedule of contributors to the association must be made available. Inspection must be permitted during regular business hours at the association's principal office. If the association does not maintain a permanent office, it must provide a reasonable location for a requester to inspect the association's annual returns. The association may mail the information to a requester. In such cases, the association may charge for postage and copying only if the requester gives up the right to a free inspection.

For a request made in person, the PTA must respond immediately. For a request made in writing, the PTA must provide the requested copies within 30 days and may charge a reasonable fee for reproduction and mailing costs. PTAs may file their 990s with services like GuideStar or post their 990s on their website in a PDF format for easy public access.

Any PTA that does not comply with the public inspection requirement will be assessed a penalty of \$20 for each day that inspection was not permitted, up to a maximum of \$10,000 for each return. No penalty will be imposed if the failure is due to reasonable cause (determined by the IRS). Any PTA that willfully fails to comply will be subject to an additional penalty of \$1,000.

All inquiries should be reported to the state PTA.

**Unrelated Business Income and IRS Form 990-T**

Most PTAs are exempt from federal income tax under Section 501(c)(3) of the IRC and are further defined as public charities (not private foundations).

Having tax-exempt status means that a PTA does not pay federal income tax on income from activities that are substantially related to the purpose for which the PTA was given tax-exempt status.

However, the PTA may be required to pay tax on other types of income, referred to as unrelated business income (UBI).

**The law requires nonprofits to:**

- Report unrelated business activities when gross receipts are at least \$1,000 by filing IRS Form 990-T.
- Pay taxes on net (after expenses) receipts.

Nonprofits risk losing their tax-exempt status only if such activities become the primary focus and make the tax-exempt mission secondary.

**What Is Unrelated Business Income?**

For an activity to be classified as yielding unrelated business income (UBI), three factors must be present: The activity must be (1) a trade or business, (2) regularly carried on, and (3) unrelated to the organization’s tax-exempt purpose.

1. A trade or business
  - » For the activity to be considered a business, the nonprofit must take an active role in the generation of the income.
  - » The activity must provide income, but does not have to produce a profit.
2. Regularly carried on
  - » IRS regulations state that activities that are carried on only “discontinuously or periodically” will not be considered to be regularly carried on.
  - » If an activity is of short duration, but follow-up or preparation is carried on over a long period, the income from that activity could be UBI.
  - » An activity occurring only once per year may yield UBI if a commercial company performing the same activity is active only once a year.
3. Unrelated to the association’s tax-exempt purpose
  - » If an activity is not substantially related to the PTA’s mission, then it could be considered unrelated to fulfilling the tax-exempt purpose of the PTA.
  - » The substantial relation of the activity to the PTA’s tax-exempt purpose cannot come solely from the PTA’s need for money.

The destination or use of the income has no bearing on whether it is unrelated business income. The determination is made by how the income is earned.

All IRS forms and publications may be obtained for free from the IRS.

Call (800) TAX-FORM (829-3676) or visit [IRS.gov](https://www.irs.gov).

**Exceptions or Exemptions**

**The income from most PTA fundraising activities is exempt from federal income taxes because:**

- The activities are conducted only once per year
- At least 85% of the work of the activities is conducted by volunteers
- The activities consist of selling donated merchandise (e.g., a silent or live auction of donated merchandise)

Judgment of whether an activity is related or unrelated is made on a case-by-case basis.

The federal, state and local governments may have different standards for pursuing the charge of UBI, although most state and local governments follow the federal rules.

**Statement for Recipients of Miscellaneous Income—IRS Form 1099-MISC**

PTAs may be required to file Form 1099-MISC with the IRS if they pay \$400 or more during the calendar year to any unincorporated business or person for services rendered or in payment for a grant, award or scholarship.

Form 1099-MISC does not need to be issued to corporations or to those paid less than \$600. Form 1099-MISC must be sent to the recipients on or before January 31 of each year and filed with the IRS, along with Form 1096 (Annual Summary and Transmittal of U.S. Information Returns), on or before February 28 of each year.

For details regarding when and how to file, download the Instructions for Form 1099-MISC, as well as the General Instructions for Forms 1099, 1098, 5498 and W-2G, at [IRS.gov](https://www.irs.gov).

**Application to Adopt, Change, or Retain a Tax Year—IRS Form 1128**

An association that is recognized as exempt from federal income tax and wishes to change its accounting period or fiscal year must inform the IRS. In some cases, [IRS Form 1128](https://www.irs.gov) (Application to Adopt, Change, or Retain a Tax Year) must be filed. The IRS can impose penalties and interest when a PTA changes its accounting period without filing Form 1128 when required to do so.

If a PTA has not changed its accounting period at any time within the last 10 years, it should prepare an interim short period financial report covering the months that fall between the end of the current and start of the new fiscal year and submit a Form 990 and Schedule A to the IRS covering those interim months. The report and form should be marked “change of accounting period.” It is not necessary to file Form 1128 in this instance.

All IRS forms and publications may be obtained for free from the IRS.

Call (800) TAX-FORM (829-3676) or visit [IRS.gov](https://www.irs.gov).

## Excess Benefit Transactions

When a PTA provides perks, payment, or extra benefits (such as limousine service, presidential suites, or first-class air travel) to officers or special members of its association, the IRS may consider it an excess benefit transaction, and the individual receiving the benefit, as well as the person who approved the benefit, may be liable for tax penalties.

The IRS may consider it an excess benefit transaction if a PTA provides to an officer or person associated with the PTA a benefit that exceeds what would be considered reasonable compensation as consideration for service.

Previously, PTAs could lose their tax-exempt status for engaging in excess benefit transactions. The Taxpayer Bill of Rights 2 (signed into law July 30, 1996) imposes intermediate sanctions—an alternative to revoking an association’s exempt status.

In order for a transaction not to be classified as an excess benefit, any item that may appear to be an excess benefit should be substantiated with documentation showing how the transaction benefited the PTA (e.g., presidential suite was used for officers meetings or meetings with sponsors or exhibitors for future business).

## Disposition of Local PTA Assets

Local PTAs contemplating dissolution should be aware of the state PTA policies and their legal implications. Each PTA’s bylaws provide that “in the event of the dissolution of the organization, its assets shall be distributed for one or more of the exempt purposes specified in Section 501(c)(3) of the IRC of 1954 as from time to time amended,” and further, that the 501(c)(3) association receiving the funds be designated by the state PTA.

This basic policy only states what would be reasonably expected—that the assets of the PTA, after the debts and obligations of the association have been paid or adequately provided for, be used for one or more of the educational purposes for which they were collected, and not be given to individuals. Any disbanding local PTA must comply with those rules and, as stated in the bylaws, is obligated, upon withdrawal of its charter, to yield up and surrender all of its books and records and all of its assets and property to the state PTA or another PTA as designated by the state PTA. The state PTA should be contacted well before any action is contemplated. The policy on disposition of assets (e.g., all cash, accounts receivable, other property, and any rights that may have monetary value) is also applicable in cases where PTAs merge.

## Substantiation Requirements for Charitable Contributions

### Deductibility of Contributions Made to PTAs

PTA members and contributors often assume that any payment they make to a PTA in conjunction with a fundraising event is tax-deductible. However, rules and limitations exist for the deductibility of such payments.

#### Quid Pro Quo Contributions

IRS regulations state that charities must provide a written disclosure statement to a donor for a quid pro quo contribution of more than \$75. This type of contribution is a payment made partly as a contribution and partly in exchange for goods and/or services. The disclosure statement must disclose the amount of the payment and give a description and good faith estimate of the value of the goods and/or services received in exchange for a portion of the payment.

Example: If a PTA holds a fundraising event that provides a meal or some tangible item in return for the purchase of a ticket, then the portion of the ticket that is tax-deductible is the ticket price less the fair market value of the meal or item received.

### Charitable Contributions of Cash

A donor claiming a monetary charitable contribution deduction of any amount cannot take the income tax deduction unless he or she has a canceled check, bank record or acknowledgment from the charitable organization. The acknowledgment correspondence (link to additional resource must:

- Include the name of the charitable association (name of PTA)
- Include the amount of money received
- Include date of the contribution
- State whether any goods or services were received in return for the contribution
- Describe the goods or services received, with the fair market value of same
- Be received by the donor prior to the due date of the donor's tax return

Out-of-pocket volunteer expenses can qualify for a charitable deduction but are subject to the same substantiation requirements if the expenses exceed the \$250 threshold. The volunteer must maintain records to substantiate the amount of the expenses, and obtain a statement from the association describing the service provided by the volunteer and indicating whether or not any goods or services were provided to the volunteer in return.

### Penalties

An acknowledgment to substantiate charitable contributions and a disclosure statement for quid pro quo contributions are two separate documents. If a PTA decides to make them one document, the PTA must follow all the rules and deadlines in order to avoid applicable penalties. Charities that fail to provide the required disclosure statements for quid pro quo contributions of more than \$75 will incur a penalty of \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing.

### Noncash Charitable Contributions—IRS Form 8283

It is the obligation of the donor to obtain **IRS Form 8283** (Noncash Charitable Contributions) and have the person to whom the donation is made sign in Part IV to acknowledge the contribution. As a service to donors, the PTA may want to remind them to use this form.

## Theft, Fraud and Embezzlement Guidelines

### Overview

It is hard to acknowledge that theft, fraud and embezzlement are pervasive in today's society. In many cases, the person who commits these acts is someone you know, like and trust. Convincing a nonprofit to prosecute is often difficult. A nonprofit's duty to its members, the community, and its donors are significant and this should have strong consideration when determining whether to prosecute or not. Managers of nonprofit organizations must constantly be on the lookout for fraud.

Fraud costs U.S. organizations more than \$400 billion annually. The average organization loses approximately 6% of its total annual revenue to these abuses. And these abuses are perpetrated at all levels of the organization.

### Preventing Theft, Fraud and Embezzlement

Every organization should have a strong system of internal controls. Internal controls are not only for large organizations; there are steps small organizations can take to protect their assets as well. They may not have enough volunteers or employees to maintain strict delineation of duties but internal controls are still possible. Without good internal controls it could take months to become aware of a problem. View our Fraud Prevention Checklist in the additional resources section.

### Internal Controls

Internal controls are a process designed to provide reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of your operations, and compliance with applicable laws and regulations.

#### Implementing proper internal controls provide assurance that:

- Fraud will be discovered on a timely basis
- Perpetrators will be identified
- A strong deterrent to improper activities is in place
- Loss will be covered by insurance

Good internal controls will take away the opportunity needed by desperate people to commit a crime. What will cause a normally good person to reach this point? Gambling debts, divorce, illness, drug problems, peer pressure, and work lay-offs are some of the reasons that are given when people are questioned about these abuses. It may be hard to take appropriate action when you have compassion for the person committing the fraud, but that should not be part of the consideration.

### PTA-Specific Warning Signs

- Treasurer's report delayed or non-existent
- Budget monitoring reports delayed (may be part of the treasurer's report)
- Delayed deposit of cash receipts
- Missing supporting documents
- Multiple corrections to the cash book
- Checks bouncing when there should be sufficient cash
- Lifestyle or behavior changes of staff or volunteers

### The Cost of Not Prosecuting Fraud

- Not pursuing action sets a precedent that may cause additional fraud later on or create an environment that encourages fraud rather than deters it.
- This may cause loss of credibility and respect for the association among the members, community, partners and donors.
- Lack of prosecution may void the insurance policy.

#### **Fraud can have a significant impact on your association. It can lead to:**

- Financial loss
- Costly investigation (in actual dollars and time lost)
- Lost opportunities
- Damaged reputation
- Damaged relationships with vendors, partners, members and the community
- Loss of donors
- Litigation

Investigate all suspected fraud and decide if sufficient probable cause exists to prosecute. You may want to get an attorney involved from the beginning to make certain that evidence of possible fraud is properly preserved. They can advise the association on the likelihood of success in civil court, and protect the organization from issues related to improper actions or civil rights violations against the suspect.

Do not be afraid to talk about fraud. Make it well known that theft will not be tolerated and that prosecution may result. Promote safeguards to reduce incidents of fraud and encourage people to come forward if they suspect irregularities.

### Suspected Fraud Action Step-by-Step

- Determine if insurance covers the loss.
- Consider whether to call the police.
- Consider whether to call the district attorney.
- Consider whether to meet with the individual.
- Contact your state PTA for resources and/or guidance.

Have a written policy with procedures describing how future incidences will be handled.

Check the insurance policy before you have a problem to see if it requires prosecution in order to recover a loss. You should also check the policy to see if it will cover losses if you do not have written controls in place or what happens if the controls are not followed. Many times this is grounds for denying a claim. You may want to check your state law to see if there are provisions that you may want to incorporate in your policy.

#### **First Steps for Suspected Fraud or Theft**

- Do not make accusations.
- Determine what other access the suspect has, what other types of fraud schemes the suspect could have perpetrated, the likelihood of collusion, and the possible duration of the schemes discovered.
- Document all allegations.
- Gather facts, documents and interviews.
- Identify all bank accounts involved and consider closing or freezing the accounts. Follow steps in the policy developed to cover such matters.
- Contact the authorities.
- Contact insurance company.

- If it is determined that fraud did occur, National PTA recommends that the PTA should file an official report with the police department.

## Additional Important Information

### Postal Regulations and Sales Tax

#### Postal Regulations

A PTA may apply for a bulk mailing postal permit, which can save money if all of the mailing criteria are met, for example, 200 pieces or 50 pounds of like mail at one time. The latest postal regulations have specified various preparation options at varying postage rates. The best way to find out about your mail options is to contact your local post office. If your local post office does not have a nonprofit expert, request that you be referred to the closest available location with this service.

#### Sales Tax

PTA is not exempt from sales tax in all states. Check with the state PTA office, which will have information from the state Department of Taxation (or its equivalent), for directions and specific information.

### Disaster Assistance

At times, PTAs become involved in disaster assistance, providing aid to victims of such disasters as hurricanes and tornadoes. PTAs must be careful about how they handle goods and money in these situations. If a PTA is soliciting the public for either goods or money, it must have a license to solicit from the state attorney general's office. Many state PTAs have a license to solicit that covers all of their units. Contact your state PTA to make sure your unit is covered.

If a PTA is collecting funds, it is best to ask the donor to make the check payable to the agency receiving the funds. The PTA can collect the checks and forward them to the agency. It is better if the PTA does not deposit the money into its regular bank account.

If the PTA does deposit checks into its regular bank account, it will have to declare these funds as income. The PTA should keep accurate records of the deposit and disbursement of those funds.

A PTA can vote, per its bylaws, to donate its own funds to a relief agency, provided that the agency is a 501(c)(3) nonprofit organization. Any substantial contribution from PTA funds should be to an agency that focuses on a school- or student-related relief effort.

PTAs involved in disaster assistance must also consider how they will keep information about the beneficiaries confidential. A PTA may wish to partner with the school district or another community agency to guard the privacy of the displaced citizens and to ensure that donations get where they are most needed.

### Charitable Class

A charitable association, such as PTA, must be set up to benefit an indefinite class of individuals, not particular persons. However, the number of beneficiaries may be small as long as the benefited class is open and the identities of the beneficiaries are not specifically listed.

The group of individuals that may properly receive assistance from a charitable association is called a "charitable class." A charitable class must be large or indefinite enough that providing aid to members of the class benefits the community as a whole. Because of this requirement, a tax-exempt disaster relief or emergency hardship organization cannot target and limit its assistance to specific individuals, such as a few persons injured in a particular fire. Similarly, donors cannot earmark contributions to a charitable association for a particular individual or family. When a disaster or emergency hardship occurs, a charitable association may help individuals who are needy or otherwise distressed because they are part of a general class or charitable beneficiaries. There are many PTAs that have a family or child in need that they would like to donate funds to. In this case, take your fundraising expertise outside of the PTA to ensure that your PTA does not work outside its mission to serve every child.

While disasters often bring out the best in people, they also bring out the worst in a few. Some agencies that claim to be working on behalf of disaster victims are really scam artists trying to raise money for themselves. Be sure to donate your funds to reputable, well-established agencies, such as the American Red Cross, to avoid falling victim to a swindle.

### Lobbying

The National PTA and its constituent associations may propose, support, or oppose legislation needed to achieve the purposes of the PTA and the legislative program— provided that those activities do not exceed the limitations established by the federal tax laws governing such organizations' tax-exempt status. Keep accurate records of the amounts of time and money spent and the nature of volunteer activities. These records will help your PTA monitor its activities to stay within IRC limitations, as well as complete any reports required by the IRS.

### PTAs Can Not:

- Endorse candidates or a political party for public office.
- Invite only one candidate or political party in an election to speak to the PTA.
- Ask candidates to sign pledges on any issue (tacit endorsement).
- Tell PTA members to only vote for a candidate who supports “X” position.
- Distribute any campaign materials on behalf of a candidate.
- Wear campaign buttons or t-shirts during a PTA meeting.

The expenditure test (referred to as the 501(h) election in this document) details what lobbying is and what it is not, and sets up precise measures of compliance based solely on the association’s tax-exempt purpose expenditures.

The substantial part test applies to PTAs that have not made the 501(h) election. Under the substantial part test, in order for a PTA to be recognized as being tax-exempt under IRC Section 501(c)(3) and to receive tax-deductible contributions, it may not devote more than an insubstantial part of its activities (generally interpreted as not exceeding 5% of gross income) to influence legislation.

Effective July 1, 1994, National PTA’s Board of Directors voted to have its legislative activities governed by the expenditure test, rather than the substantial part test. The substantial part test is vague, subjective, and difficult to comply with because there is no clear delineation of how much lobbying is excessive or the amount of money that can be spent in regard to those activities.

The 501(h) election made by the National PTA does not apply to state, region, district, council, or local PTAs, who remain under their current IRS lobbying status unless they also choose the 501(h) election.

In addition, the IRS has issued a ruling specific to the National PTA that can be used by state and local PTAs if they choose to make the 501(h) election. Under this ruling, the IRS has deemed that the national, state and local entities of PTA are separate for purposes of reporting lobbying expenses as they pertain to compliance with the expenditure limitations.

If a PTA wishes to have its legislative activities governed by the 501(h) election, it should confer with an appropriate tax professional before making the decision.

### Appropriate Legislative Activities

National PTA and its constituent associations may support or oppose legislation and policies affecting children and youth to the extent allowed by their tax-exempt status. Historically, much of the legislation protecting the health, education, and well-being of children and youth owes its existence to PTA support.

To stay within the permissible limits placed on it by its tax-exempt status, a PTA should focus the larger part of its legislative activities on educating and preparing members to exercise their individual and association rights. Therefore, state, region, district, council and local PTAs can and should have legislative committees that share information with the membership. Every PTA should be part of the united effort working within the state and across the nation on behalf of children and youth.

### Educating

The following are legislative activities that do not count as lobbying because they are considered educational:

- Analyzing and reporting on passed, pending, or needed legislation (a) with members or (b) by invitation with government agencies
- Reporting state and National PTA positions to PTA members
- Adopting and reporting local PTA position statements about legislation or policies
- Researching an issue without bias toward one side or the other



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**National Office**

1250 North Pitt Street

Alexandria, VA 22314

Toll-Free: (800) 307-4PTA (4782)

Fax: (703) 836-0942

**PTA.org**