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# Welcome

## Welcome to PTA® leadership!

Your role as PTA treasurer carries a good deal of responsibility, but it is also a wonderful position to have. You are about to embark upon an enriching, challenging, and fulfilling opportunity to help carry out PTA's Mission for your community's school and children.

National PTA has created this quick-reference guide to help orient you to your major areas of responsibility. It will help you gain a basic understanding of important concepts and familiarize you with resources that are available to you from the national association. This guide supplements—but does not replace—the materials you receive from your state PTA.

In addition, these instructions are intended to help clarify Generally Accepted Accounting Principles (GAAP), the standard framework of guidelines for financial accounting, and tax requirements of governing bodies, most notably the U.S. Internal Revenue Service (IRS). They are not intended to replace those instructions. If you have questions or need additional assistance, please call your state PTA office or the National PTA headquarters.

## Overview

### *Purpose and Responsibilities of the Treasurer*

The treasurer is the authorized custodian, elected by the members, of the funds of the PTA association. It is the treasurer who ensures that the unit finances are properly handled.

This is a critical job, since proper handling of the unit's money will keep the unit in good standing, as well as maintain its credibility with the school and the community.

It is imperative that the treasurer maintain accurate records. Without good records, individuals involved with collecting and handling the PTA's funds will not be protected should any questions arise. Standard, accepted financial procedures must be used when keeping records, so that proper audits can be conducted. All treasurers should be bonded. (See "Bonding Insurance," page 26.)

### *The ideal candidate for treasurer should have:*

- Strong organizational skills
- A background in accounting practices and procedures
- Knowledge of volunteer management and nonprofit accounting
- In-depth knowledge of PTA and its mission and objectives

## First Steps

### *Your initial tasks as treasurer include:*

- Making sure that the books have been audited before accepting them.
- Verify the completeness of files and records received, 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.
- Securing the signatures of new officers authorized to sign checks, and filing the signature cards with the bank, if not taken care of by the outgoing treasurer.
- Checking on bonding and liability procedures.
- Studying this PTA Money Matters Quick-Reference Guide and relevant areas of 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.

## The PTA Treasurer

### Duties of the Treasurer

- Keep up-to-date on nonprofit financial issues by reading relevant materials and pursuing appropriate training.
- Chair the finance committee (if required in the bylaws).
- 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.
- Submit a report 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, the state and national portions of dues, 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.
- Receipts should always be issued for amounts of 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.***

- Pay by check all bills as authorized. Two signatures should be required on all checks.
- The procedure for authorizing disbursement and the established authorizing parties— the president, board executive committee—should be spelled out in the association bylaws. **All bills must be paid by check—never by cash. As a general rule, purchases should not be made without written authorization.** The bylaws should require that checks be signed by two people, usually the president and the treasurer.
- Individuals authorized to sign checks should not be related to each other by marriage or any other relationship. **Never sign a blank check or a check made out to "cash."**
- Keep the record of the national and state portions of membership dues and all other national and state monies separate from the record of the general funds of the local PTA.
- Forward to the state PTA—through the channels and at the times designated in the state bylaws—the state and national portions of membership dues, together with all other monies that belong to the state and National PTA. Each remittance should be accompanied by a statement showing the name and address of the PTA and the number of PTA members. The National PTA office requires a complete list of names and addresses (including e-mail addresses) of PTA members.
- Cooperate with the membership chair and the secretary in keeping an accurate list of the PTA membership.
- Preserve all check requests, receipts, bank statements, and canceled checks, and submit all of these to the auditor in preparation for the annual audit. Arrange for the annual audit.
- Prepare for the treasurer's successor all books, papers, and correspondence pertaining to the office of treasurer, including the audited books, approved and paid bills, canceled checks, plans, and procedures. Transfer all materials to the incoming treasurer in a timely manner.
- Keep canceled checks, paid bills, etc., for seven years. This procedure provides the PTA with sufficient background documents and material should any questions arise.

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.

- q A copy of the PTA bylaws and standing rules, with sections authorizing disbursements marked
- q A copy of state PTA bylaws and National PTA Bylaws (and council bylaws if indicated)
- q A copy of the budget adopted by the association
- q Receipt book to acknowledge money received by the treasurer
- q Checkbook to disburse funds as authorized
- q Treasurer's account book in which to keep the financial records of the association (may be an electronic file)
- q Permanent Internal Revenue Service (IRS) tax information, including the following:
  - o IRS determination letter of tax-exempt status and copy of application for tax-exempt status (see "Determination Letter," page 32)
  - o Federal Employer Identification Number (FEIN), also known as EIN (Employer Identification Number)
  - o Copies of filed Form 990/990-EZ, 990-N, 990-T, or other required IRS forms
  - o Group exemption number (see "Determination Letter," page 32)
- q Permanent state tax information, such as state sales tax correspondence, state identification numbers, and reports filed with the state, as required
- q An up-to-date roster of the members of the association
- q A copy of this PTA Money Matters Quick-Reference Guide and a completed copy of the financial management checklist (see page 54)
- q Audit reports held in permanent file
- q Seven years of cash receipts and petty cash records, bank deposits, invoices, and statements
- q General correspondence
- q Three years of budgets

# The PTA Treasurer

## Records Retention Schedule

It is very important that certain records be retained. It helps to develop a records retention policy. Listed on this page are items that should be reviewed on a periodic basis and kept in a safe place.

### *Records to be Retained Retention Period*

Accounts payable records .....	7 years
Annual audit reports .....	Permanently
Articles of Incorporation .....	Permanently
Bank reconciliations .....	1 year
Bylaws, including all amendments .....	Permanently
Cash receipt records .....	7 years
Checks (canceled) (see exception, next line) .....	7 years
Checks (canceled) for important payments, i.e., taxes, special contracts, etc. (checks should be filed with the papers pertaining to the transaction) .....	Permanently
Contracts and leases (expired) .....	7 years
Contracts and leases still in effect .....	Permanently
Corporation reports filed with the secretary of state .....	Permanently
Correspondence with customers or vendors .....	1 year
Correspondence (general) .....	3 years
Correspondence (legal) .....	Permanently
Duplicate deposit slips .....	1 year
Employee records (post-termination), if applicable .....	3 years
Employment applications, if applicable .....	3 years
Equipment owned by PTA .....	Permanently
Financial statements (year-end) and budgets .....	10 years
Grant award letters of agreement .....	10 years
Insurance records, accident reports, claims, policies, certificates .....	Permanently
Inventories (products and materials) .....	7 years
Invoices .....	7 years
Journals .....	Permanently
Minute books of directors and committees .....	Permanently
PTA charter .....	Permanently
Petty cash vouchers .....	3 years
Purchase orders .....	7 years
Record retention policy .....	Permanently
Sales records .....	7 years
Standing rules (current) .....	Permanently
Tax-exempt status documents .....	Permanently
Application for tax exemption (federal and state)	
Letter of determination (recognition) of tax-exempt status (federal and state)	
Group tax exemption documents, if applicable	
Letter assigning IRS Employee Identification Number (EIN)	



Form 990/990-EZ and Schedule A, as filed with IRS	
Form 990-N (e-Postcard)	
State tax information returns, as filed	
Form 990-T, if applicable, for unrelated business income	
Correspondence with IRS	
Other information returns filed with the government	
Charitable Solicitation Registration, if applicable	
Trademark registrations .....	Permanently
Vouchers for payments to vendors, officers, etc. (includes allowances and reimbursements to officers, members, etc., for travel and other expenses) .....	7 years

### Treasurer's Written Report

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 on page 11.) 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, or note the procedure outlined under "Financial Review Procedure," page 22.)

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 on the following page as a guideline for local, council, district, and region PTAs.

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.

# The PTA Treasurer

## Sample Annual Report

Fiscal Year \_\_\_\_\_ Date \_\_\_\_\_ Prepared \_\_\_\_\_  
 Local \_\_\_\_\_ PTA \_\_\_\_\_ Name \_\_\_\_\_  
 \_\_\_\_\_ City \_\_\_\_\_  
 \_\_\_\_\_ IRS \_\_\_\_\_  
 Number \_\_\_\_\_  
 District and Council \_\_\_\_\_

### ACTUAL RECEIPTS

Membership Dues (850 members at \$3.00—local portion only) .....	\$2,550
Fundraising (total gross income)..... (or any means used for making money)	3,300
Sponsorships.....	1,000
Balance Brought Forward from Previous Year.....	550
<b>TOTAL RECEIPTS.....</b>	<b>\$7,400</b>

### ACTUAL EXPENDITURES

Leadership Development.....	\$1,200
Membership Promotion.....	530
Programs .....	850
Reflections.....	420
District/Council Conferences .....	300
State PTA and National PTA Conventions.....	500
Newsletter and Publicity.....	185
Bulletins/Our Children.....	200
Officers' Reimbursement (telephone, tolls, stamps, etc.) .....	180
Chair's Reimbursement (telephone, tolls, stamps, etc.) .....	150
Past President's Pin.....	40
Council Dues .....	50
Scholarship .....	200
Bonding/Liability Insurance.....	300
Supplies.....	150
Mailing Permit .....	60
Postage.....	375
<b>TOTAL EXPENDITURES.....</b>	<b>\$5,690</b>
Amount Remaining for Next Year .....	\$1,710

### RECEIPTS NOT BELONGING TO LOCAL PTA

State and National PTA Dues (850 members at \$3.00) .....	\$2,550
Founders Day Gift.....	50
<b>TOTAL.....</b>	<b>\$2,600</b>

### DISBURSEMENT OF MONIES NOT BELONGING TO LOCAL PTA

Dues sent to state PTA office .....	\$2,550
Founders Day Gift sent.....	50
<b>TOTAL.....</b>	<b>\$2,600</b>

(The annual report should be sent to the appropriate PTA office at the end of the fiscal year, if required.)

Sample Monthly Treasurer's Report

\_\_\_\_\_ PTA

BALANCE ON HAND: 1/31/20\_\_\_\_\_ \$2,750.01

INCOME	Actual Monthly	Actual YTD	Budget	Variance
1. Local Membership Dues (@ \$6*).....	300.00	4,800.00	5,100.00	(300.00)
2. Investment (CD @ Bank on \$2,500) .....	8.33	83.33	100.00	(16.67)
3. Donations from PTA Parents .....	1,000.00	1,000.00	—	1,000.00
4. Fundraising Projects				
Carnival .....	50.00	1,700.00	1,500.00	200.00
Book Sale.....	100.00	456.14	600.00	(143.86)
Founders Day .....	200.00	300.00	300.00	—
5. Corporate Sponsorship.....	0.00	1,000.00	1,000.00	—
<b>TOTAL INCOME.....</b>	<b>\$1,658.33</b>	<b>\$9,339.47</b>	<b>8,600.00</b>	<b>\$739.47</b>

EXPENSES

1. Administration				
Supplies .....	25.00	155.00	200.00	45.00
Past President's Pin .....	25.00	25.00	50.00	25.00
Printing.....	0.00	100.00	100.00	—
Mailing Permit/Postage.....	15.00	700.00	750.00	50.00
Liability Insurance.....	25.00	125.00	300.00	175.00
Bonding Insurance .....	25.00	75.00	150.00	75.00
2. Leadership Education				
District/Council Conferences .....	10.00	170.00	200.00	30.00
State PTA Convention/National PTA Convention .....	0.00	445.00	500.00	55.00
Publications/Brochures/Our Children.....	40.00	310.00	400.00	90.00
3. Committees				
Membership.....	20.00	205.00	300.00	95.00
Programs .....	20.00	276.18	300.00	23.82
4. Volunteer Recognition				
Awards (3) .....	0.00	0.00	50.00	50.00
Special Appreciation Awards .....	0.00	0.00	50.00	50.00
5. Projects				
Carnival .....	0.00	251.63	300.00	48.37
Book Sale.....	0.00	125.00	200.00	75.00
Reflections .....	0.00	185.00	245.00	60.00
Parent Involvement.....	0.00	356.00	300.00	(56.00)
Student Enrichment Grants .....	0.00	275.00	300.00	25.00
Self-Esteem Program .....	0.00	179.00	190.00	11.00
Reading Scholarships .....	0.00	185.00	200.00	15.00
<b>TOTAL EXPENSES.....</b>	<b>\$205.00</b>	<b>\$4,142.81</b>	<b>\$5,085.00</b>	<b>\$942.19</b>
<b>BALANCE ON HAND: 2/18/20_____</b>	<b>\$4,203.34</b>			

(State and national portions of dues collected and remitted to state: \$4,000. Founders Day donations: \$300.)

\*We have 800 members and our annual membership fee is \$11.00.

National .....	1.75 @ 800	=	1,400.00
State .....	3.25 @ 800	=	2,600.00
Local .....	6.00 @ 800	=	4,800.00
Totals .....	\$11.00		\$8,800.00

Submitted by \_\_\_\_\_, Treasurer

## *The PTA Treasurer*

### Final Steps Before Leaving Office Checklist

- q Making sure that all state and national portions of dues have been collected and forwarded to the state PTA office.
- q Balancing the books to prepare for the audit.
- q Making sure that the PTA's books agree with the bank balance and outstanding checks, plus cash on hand.
- q Preparing the annual report covering the term of office.
- q Submitting IRS Form 990, 990-EZ, 990-N, 990-T, or other IRS forms if required. Preparing other reports required by the government.
- q Arranging for the transfer of all records, reports, and files to the new treasurer. Obtaining and filing new signature cards with the bank, so that the new treasurer will
- q be authorized to sign checks without delay.
- q Arranging for bonding as required by the PTA.
- q Forwarding the annual report to the appropriate PTA office.

## Dues

The dues for PTA include the state portion, established by the state PTA bylaws; the national portion, established by the voting body at National PTA Convention; and the local portion, established by the local PTA bylaws. An individual who pays dues to a local PTA automatically becomes a member of the state and national PTAs.

The local treasurer works with the membership chair to forward the state and national portions of the per-capita dues, the number of members, the names and addresses of members, and the identification of the local PTA. Members' e-mail addresses are also requested.

As directed by the state PTA, the state and national portions of the dues 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. The state and national portions of dues do not belong to the local PTA and are never recorded as part of the local PTA's income, but they should be recorded as accounts payable within your financial records.

Because each PTA has a unique set of activities that are different from the activities of every other PTA, people belonging to more than one PTA pay dues to each local PTA of which they are members.

The state and national levels of PTA provide several services that benefit every local PTA. These services—including national 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.

## 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 organization'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.

## 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 organization'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.

At each regular meeting of the board/executive committee throughout the year, present a statement showing how the amounts expended to date compare with corresponding items in the approved budget.

The budget committee should also seek approval of a plan to provide for 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 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 treasurer's regular financial report to the membership. Any additional expenditure not provided for in the budget must be approved by the membership. The regular financial 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.

# The Budget

## Sample Budget

\_\_\_\_\_ PTA

Fiscal Year \_\_\_\_\_

Anticipated Revenue Based on 800 Members

### RECEIPTS

Membership Dues (800 Members at \$3.00—local portion only) .....	\$2,400
Fundraising (or any means used for making money) Fall Festival .....	2,600
Local Corporate Sponsors .....	950
Balance Brought Forward from Previous Year .....	550
<b>TOTAL RECEIPTS .....</b>	<b>\$6,500</b>

### EXPENDITURES

Leadership Development .....	\$1,500
Membership Promotion .....	700
Programs.....	1,000
Reflections .....	500
District/Council Conferences .....	300
State PTA and National PTA Conventions.....	500
Newsletter and Publicity .....	200
Bulletins/ <i>Our Children</i> .....	200
Officers' Reimbursement (telephone, tolls, stamps, etc.) .....	200
Chair's Reimbursement (telephone, tolls, stamps, etc.) .....	150
Past President's Pin.....	40
Council Dues.....	50
Scholarship .....	200
Bonding/Liability Insurance.....	300
Supplies .....	200
Mailing Permit .....	60
Postage .....	400
<b>TOTAL EXPENDITURES .....</b>	<b>\$6,500</b>

(Leave a balance of sufficient funds to get the new PTA year off to a good start. Monies will be needed for workshops, state conventions, etc.)

**TOTAL.....\$6,500**

Adopted by Association \_\_\_\_\_  
(date)



## 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 (see page 31) 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 budgeting 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 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 statement 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.

## Banking

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 fundraising 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 following information: date, brief description, amount to be paid, and budget line item(s), with the signature of the president authorizing payment. A check request, with receipts attached, should be prepared for each check to be written.

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.

### PTA Funds vs. Public Monies

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 (SO). 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.

## Overview

Auditing involves following financial transactions through records to make sure that receipts have been properly accounted for and expenditures made as authorized in the minutes and 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. Record books should be audited at least once a year. Books should also be audited if a financial officer resigns, 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 are prepared according to Generally Accepted Accounting Principles (GAAP).

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.

## External Audit

Three types of services that can be provided by an external professional auditor are described below. PTAs should decide which provides the best information for them and their members, partners, and business associates for the most reasonable cost. If your PTA chooses to retain a CPA firm for an external audit, ensure that they have experience working with Not-for-Profit Organizations.

## Compiled Financial Statements

These represent the most basic level of service CPAs provide with respect to financial statements. In a compilation, the CPA must comply with certain basic requirements of professional standards. It may be necessary for the CPA to perform "other accounting services"—such as creating your general ledger, or assisting PTA with adjusting entries—before the financial statements can be prepared. Upon completion, a report on the financial statements is issued that states a compilation was performed in accordance with AICPA professional standards, but no assurance is expressed that the statements are in conformity with generally accepted accounting principles.

### ***Reviewed financial statements***

- These require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation.

## ***The PTA Audit***

- 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***

- This type of services 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

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 review process should be appointment of a financial review committee. This committee should be made up of members who do not have signature authority over the bank account or 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:***

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

# The PTA Audit

## 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. Do 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, and 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 provided on page 24.*

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.

# The PTA Audit

## Sample PTA Financial Review Form

Local PTA Name \_\_\_\_\_ Date \_\_\_\_\_  
 Council \_\_\_\_\_ District \_\_\_\_\_

Balance on Hand (date of last review).....\$ \_\_\_\_\_  
 Receipts (from last review to date of review).....\$ \_\_\_\_\_  
 Total Cash.....\$ \_\_\_\_\_  
 Disbursements (from last audit to date of review).....\$ \_\_\_\_\_  
 Balance on Hand (date of review).....\$ \_\_\_\_\_  
 Latest Bank Statement Balance.....\$ \_\_\_\_\_  
 Checks Outstanding:  
 (List check numbers) ..... (Amounts)  
 Total Checks Outstanding.....\$ \_\_\_\_\_  
 Balance in Checking Account.....\$ \_\_\_\_\_

Date of Audit \_\_\_\_\_

We have examined the books of the organization \_\_\_\_\_  
 \_\_\_\_\_ PTA and find them to be (please choose one of the following  
 to complete the sentence):

correct.

incomplete.

substantially correct with the following adjustments:

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

incorrect.

Date review completed \_\_\_\_\_

Reviewers' signatures

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

(The report should be read by a member of the auditing committee or the secretary. The presiding officer should then call for the appropriate action.)



## 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 for 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 it 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 Tip*

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

PTAs involved in various activities must recognize the responsibilities and liabilities of the officers and members in conducting the affairs of the organization. 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.

## Contracts, Incorporation, and 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 noncompensated elected officers and their successors or any noncompensated 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.*

## ***Contracts, Incorporation, and Insurance***

### **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.

## Additional Important Information

### Volunteer Hours

PTAs may be asked to keep track of the number of volunteer hours and the volunteer duties, and to forward this record to the state PTA office. This log can be used to substantiate the kinds of volunteer activities in which PTA members are involved during the year.

A sample reporting form is below. Such a report can be useful in securing local, state, or national grants for PTA projects; it is a measure of in-kind services.

#### Report of Volunteer Hours

Local \_\_\_\_\_ PTA \_\_\_\_\_ Name \_\_\_\_\_  
 City \_\_\_\_\_  
 IRS \_\_\_\_\_ Number \_\_\_\_\_  
 or \_\_\_\_\_ Application \_\_\_\_\_ Made \_\_\_\_\_ (date) \_\_\_\_\_  
 President \_\_\_\_\_  
 Address \_\_\_\_\_  
 City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_  
 Phone \_\_\_\_\_ E- \_\_\_\_\_ mail \_\_\_\_\_

#### ACTIVITIES

#### HOURS

Programs	_____
Legislative	_____
Fundraising	_____
Total Volunteer Hours	_____

This report should be completed at the end of the school year and returned to the state PTA.

It is important that the state PTA office receive this form by (date).

Date submitted \_\_\_\_\_

## ***Additional Important Information***

### **Postal Regulations**

A PTA may apply for a bulk mailing postal permit, which can save money if all of the mailing criteria are met, i.e., 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 that 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.

## ***Additional Important Information***

### **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 PTA's 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.

## 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) classification:

- 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 (see pages 50 and 51 for more details).

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) 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."

## Federal Requirements

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.



## Federal Requirements

### 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.**

#### **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.

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. **However, 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.**

The e-Postcard is due every year by the 15th day of the 5th 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.

**Completing the e-Postcard requires the eight 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.**

## Federal Requirements

### 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. See Page 55 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 percent 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)(4) 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 (i.e. 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 complete and a Form 8868 filed with the IRS before the deadline determined by the close of the PTA's fiscal year.

### 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.**

## Federal Requirements

### *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 would also be 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.

## Federal Requirements

### 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, or
- **At least 85 percent of the work of the activities is conducted by volunteers,** or
- 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 need not 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](http://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 (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.

## Federal Requirements

### 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 (i.e., all cash, accounts receivable, other property, and any rights that may have monetary value) is also applicable in cases where PTAs merge.

### IRS Forms and Publications

All IRS forms and publications may be obtained for free from the IRS. Call (800) TAX-FORM (829-3676) or visit **IRS.gov**.

# Fundraising

## Fundraising and the Purpose of PTA

The primary emphasis in PTA should be the promotion of the PTA mission and the purposes of PTA. The real working capital of a PTA lies in its members, not in its treasury. Fundraising is not a primary function of PTA.

When PTAs invest their human resources in programs that improve homes, schools, and communities, they earn benefits for children and youth with very small outlays of money. PTA-sponsored programs can provide enrichment activities for families. PTAs can work with other community organizations on community-wide issues that match up with PTA priorities.

The purpose is not to subsidize public funds by hiring teachers, etc. Any funds generated by a PTA, including the local portion of dues, should be predetermined and budgeted for purposes that advance PTA work, such as participating on committees, and undertaking projects and programs. Participation in state and national PTA conventions is an appropriate and important use of PTA funds.

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***Children should never be exploited or used as fundraisers.***

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### ***Program and Project Funding Sources***

Annual membership dues are the primary source of funds for PTAs; some PTAs are able to do excellent work with no financial resources other than their dues. However, special projects and programs may require additional funds. If dues are not sufficient to finance a PTA's work, supplementary funds may be raised within the context of the mission and purposes of the PTA.

The framework for how a PTA should conduct its fundraising is determined by the policies of the National PTA and the government regulations for 501(c)(3) tax-exempt organizations.

Any funds generated by a PTA, including the local portion of dues (not state or national portions of dues), should be budgeted for purposes that advance PTA work.

PTAs should begin each year with specific goals in mind, and should identify strategies for reaching those goals before determining the dollar amount needed in a fundraising event. Only those funds necessary to meet the needs of the year's activities and projects, as outlined in the PTA's budget, should be raised.

One well-planned fundraising project will usually raise whatever funds are needed to finance the year's activities. **If the fundraising event is to reflect the high principles of the association, it will have educational, social, or recreational value in itself.**

Before undertaking any financial enterprise, a PTA should check with school, local, and state authorities to determine whether the planned activity is prohibited by state or local law or by school policy, or whether the PTA requires any special permit.

**DID YOU KNOW?****Sponsorship vs. Endorsements**

Corporate sponsorship is a funding mechanism in which a commercial concern provides cash, products, or know-how to a charitable or educational association in return for an acknowledgment of thanks. The acknowledgment of thanks generally takes the form of public recognition for the sponsor's support.

Corporate sponsorship activities stand in contrast to endorsement activities, in which charitable or educational associations endorse the products or services of commercial concerns.

**Sponsorships are an appropriate means of funding projects and programs that promote the objectives of the organization.** Endorsement activities are not appropriate for PTA participation based on PTA's noncommercial policy.

In return for sponsorship, a PTA may thank the sponsor for its contribution; the thank-you may be in writing or on posters, banners, or other appropriate media. The written acknowledgment must be limited to an expression of thanks and can list identifying information for the sponsor. The acknowledgment can never make a qualitative judgment regarding the sponsor or its product, and it cannot request that people patronize the sponsor or buy its products; otherwise, the sponsorship payment will be subject to federal income tax.

A 501(c)(3) charitable or educational association is not prohibited from engaging in corporate sponsorship activities. A special provision in the IRC makes 501(c)(3) organizations exempt from paying federal income taxes on income from corporate sponsorships, as long as the benefits that are given back to the corporate sponsor fall within IRS guidelines. Because qualifying corporate sponsorship income is considered a charitable donation, there is no limit to the amount that can be received by a 501(c)(3) organization.

**Seeking Corporate Sponsorship**

***Listed below are elements of the national policy that state and local PTAs may find helpful when seeking corporate sponsors:***

- Sponsorships shall help further the programs, aims, and goals of the association.
- Sponsorships can be linked to specific events, programs, activities, or publications, or can be added to general funds.
- Sponsorship money or in-kind donations shall not be solicited nor accepted from companies that manufacture products or take public positions inconsistent with National PTA's positions and resolutions (e.g., alcohol, tobacco, or firearms companies).
- A successor clause will appear in all sponsorship contracts.
- Sponsorship agreements shall never involve techniques or marketing approaches that exploit children. This does not preclude the sponsor from using child actors in advertising and promotions.
- The PTA name, logo, or mark shall not be used in sponsorship materials or communications without identifying the company as "official sponsor of \_\_\_\_\_ PTA."
- Sponsors' products shall not be identified as "official product of \_\_\_\_\_ PTA."

# Fundraising

## Selecting Appropriate Fundraising Activities

One well-planned fundraising project will usually raise the funds needed to finance the year's activities. If the fundraising event is to reflect the high principles of the PTA, it will have educational, social, or recreational value.

**The following questions should be used as guides in selecting and planning a fundraising project that will be both successful and worthy of the PTA:**

- q Does it adhere to the PTA mission and the purposes of PTA?
- q Does it conform to the noncommercial, nonsectarian, and nonpartisan policies set forth in the PTA bylaws?
- q Does it refrain from using or exploiting children? Will it create goodwill for the PTA?
- q Is it a type of activity that can serve as a positive example for children and youth? Will it provide the revenue to help meet the PTA's goals?
- q Did the fundraising committee provide a budget of expenditures (e.g., materials and advertising for the event), as required by the PTA's bylaws and standing rules?
- q Do the state and local governments require the PTA to collect and remit sales tax? Are special permits, such as special licenses or health permits, needed?
- q Is the liability of the PTA and its members protected through sufficient insurance or otherwise?
- q Did the president sign the contracts for vendors and/or manufacturers? Do the contracts for products cover who is responsible for spoiled or damaged goods? For unclaimed goods?
- q Is the PTA using volunteers, or does it have to pay or contract with workers?
- q Have procedures been established to safeguard the handling of products and money? What are the costs for using a facility? How long is the event going to be held? Are there special requirements or restrictions for using the facility? Are fire laws and safety precautions strictly observed? Is the facility accessible to people with disabilities?
- q Is it an infrequent or ongoing activity? Be aware that unrelated business activities could result in some federal or state taxation of the income earned or, in the extreme, the loss of your tax-exempt status.
- q Are there local, state, or federal laws that apply? Is care taken to see that no law is violated?

Depending on the PTA and the activity, there may be other questions that need to be addressed. When considering several fundraising ideas, review this list, as well as other questions and concerns, to determine which fundraising event to choose.

## The 3-to-1 Rule

When planning the year's activities, PTAs should use the 3-to-1 rule. For every fundraising activity, there should be at least three non-fundraising projects aimed at helping parents or children or advocating for school improvements.



## Standards for PTA Fundraising

PTAs are often called upon to finance programs and purchase needed equipment that tight school budgets do not have the money for, and each PTA must decide what it will do. Before approving proposals for material aid to the school or community, a PTA should consider whether or not the proposed equipment or service is a public responsibility.

If a public service is urgently needed and public funds are not immediately available, a PTA may initiate and coordinate the service while encouraging public agencies to take over the financing and operation of the service. In emergencies, PTAs may provide for the pressing needs of children and youth while they work to alert the public to its obligations.

**A PTA renders a greater service by working to secure adequate funding for programs that have an enduring benefit than by purchasing equipment for schools. PTAs should not contribute to the problem of inequities within a school district by excessive fundraising.**

As money for services and equipment becomes available from other sources, a PTA should allocate more of its funds to such projects as leadership development, parent education, and child health and safety programs. PTA funds should always be used to further PTA's mission.

PTA fundraising should be carried out within the framework of National PTA's policies. A PTA should never undertake any form of fundraising that may be detrimental to character building.

**Once the goal of the fundraising project has been thoroughly considered, the following points can help guide a PTA in deciding on a fundraising event:**

- The PTA should check with its state PTA to determine whether guidelines exist for working with individual companies or corporations. The anticipation of a successful fundraiser should not cloud the judgment of the PTA or be exploited by those outside the PTA who may have something to gain privately.
- Project organizers must take care not to improperly obligate their PTA when soliciting or accepting commercial contributions to help finance a project.
- Children should not be the primary means of soliciting with in fundraising activities.

PTAs need to be aware of the risks involved in soliciting or accepting commercial contributions to finance, or assist in financing, projects. Such contributions may create obligations that violate the noncommercial policy of PTA—a policy designed to protect PTAs from exploitation. Every PTA leader should be familiar with and understand the noncommercial policy (see page 42).

## Fundraising

### Considerations in developing standards for selecting fundraising materials:

- Does the program require children to purchase a product in order to participate?
- Is it expected or implied that children will be required to sell to others?\*
- If there are classroom materials, are they credible and accurate?
- Has the company produced the materials in partnership with a recognized authority?
- Are the materials complete and not deceiving or misleading by omission?
- Is the language and organization of material age-appropriate? Is the information designed to sell products?
- Do the text and illustrations uphold the PTA's nondiscrimination policies?
- Is this a win-win situation where the PTA is benefiting financially or otherwise from the relationship?

### Protecting PTA's Tax-Exempt Status

A PTA's tax-exempt status is one of its most important assets. If that status is revoked, charges of negligence or mismanagement may be brought against the officers and directors. Therefore, when considering a proposed activity, the PTA should ask, "Will this activity adversely affect our tax-exempt status?"

Strict compliance with all applicable federal, state, and local laws is extremely important to prevent even the most well-intentioned effort from becoming a serious problem for a PTA.

Keep in mind that an activity will be considered commercial if it consists of selling goods or services that do not contribute significantly to education or advocacy for children, even if the revenue raised from the activity is used for education or advocacy. The IRS looks at the source of the funds, not the use of the funds, to determine commerciality.

### PTA's Noncommercial Policy

**All PTA bylaws—national, state, region, district, council, and local—include the requirement to be noncommercial:**

- PTAs are prohibited under federal law from engaging in substantial business activities that are unrelated to their tax-exempt purposes, which are legally defined as educational and charitable.
- PTAs should not endorse products, companies, or foundations.
- PTAs may accept and acknowledge contributions of sponsors of PTA programs.
- PTAs may accept advertising as long as it stays within postal regulations (no more than 10 percent of the total document, including any self-advertising, e.g., for conventions and other events) and does not jeopardize the purposes and nonprofit status of PTA.
- PTAs should familiarize themselves with local, state, and federal regulations and requirements regarding licensing and liability before sponsoring or conducting public events.

## Legal Implications of Fundraising

In addition to the tax and regulatory concerns that follow, there are three main types of legal implications to fundraising activities.

First, *product liability* concerns are always present when PTA is involved in selling a product. The concerns vary with the type of product sold. For example, gift wrap is less likely to result in personal injury than is frozen pizza.

Personal injury claims other than product liability claims are the second main legal concern. A volunteer who is injured while engaging in a fundraising activity, for example, may attempt to hold the PTA responsible.

The third main legal concern results from contract issues. Commercial vendors involved in the fundraising activities may require the PTA to sign written contracts. Like any legal document, these agreements will be binding on the PTA and result in legal liability if they are not fulfilled. For example, if a PTA signs a contract to resell a product as a fundraiser and the contract requires a minimum purchase, the PTA may be required to purchase the minimum amount of goods from its own funds if enough orders are not obtained. Any contract entered into by a PTA should be examined thoroughly by a person knowledgeable in contract law (preferably a lawyer) who can advise the PTA with respect to its obligations. The PTA president is the only individual that can sign a contract (see page 25).

The insurance policy covering the PTA should also be reviewed to determine whether any product liability, personal injury, or contract claims arising from fundraising events would be covered. While personal injury typically is covered in a good general liability insurance policy, product liability claims and claims arising from contractual obligations may not be covered.

## State Laws on Fundraising

Regulations vary widely from state to state. Before beginning a fundraising activity, it is important for a PTA to check with the appropriate office in the state government to learn about registration and disclosure requirements and other statutes that may apply.

## Local Laws on Fundraising

Many cities and counties also have registration and disclosure statutes. Particular kinds of fundraising activities are frequently subject to special local regulations.

## School District Policies

Many school districts have established procedures for organizations to follow with regard to fundraising on school property using staff and students. PTAs should be familiar with those procedures and work cooperatively with school personnel.

## Fundraising

### Games of Chances

A fundraising activity involving a for-profit business or a game of chance or gambling should be considered carefully before proceeding. The funds raised from these activities may be subject to taxation and, in extreme circumstances, may cause the PTA involved to lose its tax-exempt status.

In addition, raffles, bingo, casino nights, other games of chance, and auctions may be limited or prohibited by state and local law or school policy. If permitted, they may require special registration with state or local authorities.

### E-commerce and Affinity Programs

E-commerce and affinity programs are popular sources of non-dues revenue. In both types of programs, a portion of the sale of a product or service is contributed to a particular charitable cause. The amount of the contribution is usually governed by the sales or the usage of a product or service.

E-commerce purchases are made through the Internet. PTAs can enter into agreements with companies whereby the companies return a percentage of member and nonmember purchases to PTAs as a contribution. PTAs can also be designated as recipients of charitable contributions whenever a customer is asked to designate a charity.

Affinity programs, such as PTA credit cards, are based on usage of the card. Each time a holder of the credit card makes a purchase using the card, the sponsoring PTA receives a percentage of the purchase or a set amount. PTAs may also receive a sign-up fee for each card issued.

When either type of agreement is formulated, a PTA should verify that the agreement is structured to protect the PTA's tax-exempt status and does not compromise PTA policies. Either agreement can be structured to avoid unrelated business income. The money received by PTAs should be accounted for as contributions on their financial statements.

### Accounting for Funds

- q At the fundraising event, or when funds are received, the treasurer and the chair, together, should count the monies received. Both should sign the receipt verifying the amount.
- q Itemized bills, sales slips, etc., are given to the treasurer for payment by check. The treasurer promptly issues receipts for all monies received and promptly makes a deposit in the local bank account.
- q Funds must never be deposited in a personal bank account or in the account of another organization.
- q As with the other financial transactions of the PTA, the treasurer is required to keep complete financial records of income and expenditures associated with the fundraiser. The treasurer should prepare a written report of the financial information (listing expenditures and income by category) and present the report to the PTA governing body.

### Contact Us

Call your state PTA or National PTA headquarters for answers to fundraising questions. Do not rely on the advice of outside vendors.

# 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 cancelled check, bank record or acknowledgment from the charitable organization. The acknowledgment correspondence 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 organization describing the service provided by the volunteer and indicating whether or not any goods or services were provided to the volunteer in return.

## Substantiation Requirements for Charitable Contributions

### Sample Receipt Forms

#### Contribution Greater than \$75 Goods or Services Returned to Donor

This acknowledges receipt of the following described property from you as a charitable contribution made on \_\_\_\_\_, 20\_\_; (Describe the cash or property given.)

We have provided you with goods or services in exchange for this contribution. Our estimate of the fair market value of these goods or services is \$\_\_\_\_\_. This means the net amount of your contribution—which may be a charitable contribution for federal income tax purposes—is \$\_\_\_\_\_.

We are required by law to provide this information to you. The charitable deduction is limited to the excess, if any, of your contribution over the value of the goods or services provided to you.

Please retain this document for your records. It is an important document necessary for any available federal income tax deduction for this contribution.

(Name of your PTA) \_\_\_\_\_

Authorized Signature \_\_\_\_\_ Date \_\_\_\_\_

#### Contribution of Cash No Goods or Services Returned to Donor

This acknowledges receipt of the following described property from you as a charitable contribution made on \_\_\_\_\_, 20\_\_; Amount \_\_\_\_\_

We have not provided you with any goods or services in exchange for this contribution. Please retain this document for your records. It is an important document necessary for any available federal income tax deduction for this contribution.

(Name of your PTA) \_\_\_\_\_

Authorized Signature \_\_\_\_\_ Date \_\_\_\_\_

## Substantiation Requirements for Charitable Contributions

### 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.

### Documentation Requirements for Charitable Contributions

The IRS has released final regulations concerning the substantiation requirements for charitable contributions (see the chart below for details). The charitable contribution rules have been simplified in some areas; record-keeping requirements remain in effect.

	Up to \$75	Over \$75 & up to \$250	Over \$250 & up to \$500	Over \$500 & up to \$5,000	Over \$5,000
Canceled check acceptable for donor's deduction	Yes	Yes	Yes	Yes	Yes
Contribution or receipt required for deduction	Yes	Yes	Yes	Yes	Yes
Form 8283 required	No	No	No	Yes	Yes
Independent qualified appraisal and appraiser's signature on Form 8283 required	No	No	No	No	Yes
Nondeductible portion must be identified on ticket or solicitation	No	Yes	Yes	Yes	Yes

### 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.

### Special Valuation Issues

When you provide a donor with something that is not commercially available, you may estimate the value by referring to the value of similar goods or services.

# 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 over \$400 billion annually. The average organization loses approximately 6 percent 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 segregation of duties but internal controls are still possible. Without good internal controls it could take months to become aware of a problem.

## 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.



## Theft, Fraud, and Embezzlement Guidelines

### Fraud Prevention Checklist

- q Open and review the bank statements—Someone independent of the check processing should receive the unopened bank statement and review the activity before passing it on to the person responsible for the reconciliation. This may be a requirement of your bonding insurance.
- q Reconcile bank accounts monthly—The importance of bank reconciliations should not be overlooked; they should be completed monthly and presented to the executive committee, finance committee, or similar committee. Question unexplained reconciling items.
- q Verify wire transfers—Work with the bank to set-up a system of verifications of wire transfers.
- q Provide appropriate system access—Make certain everyone has system access to perform their duties, but access should be limited to what they need to do their job.
- q Verify cash logs—Verify cash receipts with the cash log and with the bank deposit slips.
- q Re-count cash—Have a second person involved in verifying the cash count.
- q Make daily bank deposits—It is the association's money, and they should have access to it as soon as possible.
- q Review the accounts payable vendor list—Review periodically for suspicious names and addresses.
- q Protect checks—Store checks in a secure area, never pre-sign checks, limit the number of check signers and bank accounts, use pre-numbered checks, watch for missing checks or checks used out of sequence, and do not make checks payable to cash.
- q Document bills and requests for payment—Mark invoices as paid and file them in a timely fashion. Do not pay a photocopied or altered invoice; the description of service on an invoice should be clear and understandable. Do not make unauthorized refunds.
- q Prepare regular financial statements—Financial information should always be timely and complete.
- q Ask for proof of payment—Ask for proof of timely tax payments or other payments such as sales tax and incorporation fee.
- q Ask for proof of filing—If the association is required to file a Form 990 and/or other legal documents, ask for proof of timely filing.
- q Prepare a budget—Use your budget as a control document for comparison to actual expenditures.

Do not be afraid to ask questions. Do not assume you are the only one that does not know the background of a transaction. If you do not understand the answer, ask for further clarification. If you are a board member, you have a fiscal responsibility for keeping the association healthy and ongoing.

### 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

## ***Theft, Fraud, and Embezzlement Guidelines***

### **Reasons Why Some PTA's Find it Difficult to Report Fraud**

- Many associations fear the effects of negative publicity if they file an official report of insider theft.
- A nonprofit may be threatened with civil action by the offender for defamation if public statements are made.
- In many cases the offender has children in the school and the organization may not want to cause them embarrassment.
- Concern for personal safety if the abuser becomes aggressive.

### **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.

# Theft, Fraud, and Embezzlement Guidelines

## 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, 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

# Lobbying

## Overview

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.

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### **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.***

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## 501(h) Election vs. Substantial Part Test

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 percent 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

## PTA Financial Management Checklist

Name of PTA \_\_\_\_\_ Name of Treasurer \_\_\_\_\_

Street Address \_\_\_\_\_ Name of President \_\_\_\_\_

City/State/ZIP \_\_\_\_\_ Fiscal Period/Year \_\_\_\_\_

### Purpose

This checklist is designed to provide general guidance to PTA volunteer leaders in the management of their resources. Most of the fiscal planning and control items are appropriate for PTAs at the local, council, district, region, or state level. Stewardship of other people's money is an important part of volunteer activity and requires systematic and ongoing attention.

### Directions

At least annually, possibly at the time of the financial review, a complete review of financial management practices should be completed. The following checklist provides an outline and written record for this annual financial management checkup. The completed checklist should be filed with the annual audit and kept with the permanent financial records.

### I. Budgeting

The PTA budget is a financial guide. It is a statement showing a plan for obtaining funds and for allocating those funds to meet the needs and commitments of the PTA's annual activities.

- ... Is a budget committee preparing the preliminary budget? ..... Yes No
- Is the preliminary budget based on all necessary information (membership estimates, other sources of income, expense needs, current financial conditions, knowledge of the previous year's income and expenses, etc.)? ..... Yes No
- Does the budget show all sources of income, totaled and balanced, against all total expense categories? ..... Yes No
- Has the budget been formally adopted by the appropriate body (i.e., general membership, board, convention delegates)? ..... Yes No
- Have appropriate and necessary methods been put in place to implement the budget? ..... Yes No
- ... Is there a method to record and report monies received? ..... Yes No
- ... Is there a method to record and report monies spent? ..... Yes No
- Is there a method to record and report monies committed but not yet spent? ..... Yes No
- Is there a method to move funds from checking to savings accounts, and vice versa? ..... Yes No
- Are policies in place to permit changes to budget line items as needed during the fiscal year? ..... Yes No
- Are regular monthly financial reports, such as revenue and expense status, budget comparisons, fund balances, etc., made to the appropriate body (e.g., executive committee, board)? ..... Yes No
- Are provisions made for a complete audit of PTA funds at the close of the fiscal year? ..... Yes No
- ... By an outside accountant or certified public accountant? ..... Yes No
- ... or by elected/selected PTA audit committee? ..... Yes No
- Are completed audit reports summarizing cash received and cash spent verified and signed? ..... Yes No
- Are these reports communicated to the appropriate body (i.e., membership, board, convention delegates)? ..... Yes No

## PTA Financial Management Checklist

- Has a copy of the audit been filed with the state PTA office, if required? ..... Yes      No  
 (Each state PTA must send a copy of its state audit to the National PTA headquarters.)

### II. Financial Controls

Financial reporting, accounting, and internal controls permit PTAs to provide to members the necessary accountability for funds. This section calls attention to several topics regarding needed stewardship of PTA funds.

- Are all PTA monies kept separate from school, personal, or other organizations' funds? ..... Yes      No
- Is an accounting system with an accurate record of the expense and receipt transactions of the PTA maintained? ..... Yes      No
- Are the state and national portions of membership dues and required information sent to the appropriate PTA office on time? ..... Yes      No
- Are purchase requisitions (vouchers, purchase orders, or warrants) required to initiate expenditures? ..... Yes      No
- ... Are the purchase orders signed by the authorized people? ..... Yes      No
- Are purchase orders checked against the budget authorizations? ..... Yes      No
- Are purchase orders matched against orders and invoices prior to payment of claims? ..... Yes      No
- Is there a time limit for requesting reimbursement for valid claims? ..... Yes      No
- ... Are authorized claims paid in a timely manner? ..... Yes      No
- ... Is there a policy that prohibits the signing of blank checks? ..... Yes      No
- ... Are all checks signed by at least two authorized people? ..... Yes      No
- Are checks numbered in sequence and any missing checks researched? ..... Yes      No
- Are all bank signatory cards up-to-date with at least three signatures that have been approved by the board? ..... Yes      No
- Are at least two people involved in the processes of keeping financial records, depositing revenue, issuing checks, and handling cash? ..... Yes      No
- ... Are all funds deposited in a timely manner? ..... Yes      No
- Are bank reconciliations performed each month by individuals other than those who are authorized to sign checks? ..... Yes      No
- Are checking accounts (or, where applicable, savings or investment accounts) maintained to ensure full earnings on PTA funds? ..... Yes      No
- ... Does your PTA have any salaried staff? ..... Yes      No
- If salaried staff are employed, are appropriate amounts for state and federal taxes, Social Security, etc., withheld? ..... Yes      No
- Are the withheld monies and the employer contribution to Social Security forwarded to the appropriate government agencies as required? ..... Yes      No
- Are quarterly reports filed as required and within the proper deadlines? ..... Yes      No

**If your PTA has chosen to use credit cards after weighing the risks -**

**Do internal controls exist to prevent or limit fraud?**

**Is there a limit on the card?**

**Is the statement reviewed by a non-card holder monthly?**

## PTA Financial Management Checklist

### III. Insurance

Insurance or risk management includes procuring, managing, and protecting PTA volunteers and PTA property and resources. PTAs should evaluate their risk exposure and implement insurance programs in areas of property, liability, fidelity bonds, and directors and officers, consistent with applicable state laws.

- |   |     |    |
|---|-----|----|
| <input type="checkbox"/> Are insurance policies in force to protect PTA against loss of property (buildings, equipment, records, etc.) by reason of fire, theft, or other casualty? .....                         | Yes | No |
| <input type="checkbox"/> Are liability insurance policies in effect to protect PTA officers and members, schoolchildren, or other third parties where PTA projects or activities may result in an accident? ..... | Yes | No |
| <input type="checkbox"/> Are the treasurer and all others authorized to handle PTA funds covered by a fidelity bond in the amount determined by the board? .....  | Yes | No |
| <input type="checkbox"/> Are copies of all current insurance policies maintained with the permanent PTA records? .....  | Yes | No |

### IV. RS and Tax Forms

While PTAs are frequently exempt from federal and state taxes, there remain obligations to file appropriate requests for exemption and to report financial transactions.

- |  |     |    |
|--|-----|----|
| <input type="checkbox"/> Is the association exempt from federal income tax under the IRC, Section 501(c)(3)? .....   | Yes | No |
| or Section 501(c)(4)? .....  | Yes | No |
| ... If yes, is the exemption part of a state PTA blanket exemption? .....  | Yes | No |
| or part of a state PTA group exemption? .....  | Yes | No |
| ... or an individual exemption? .....  | Yes | No |
| <input type="checkbox"/> If there is no blanket, group, or individual exemption, has the PTA filed IRS Form 1023 to apply for its own Letter of Tax Exemption? .....               | Yes | No |
| <input type="checkbox"/> Is the IRS letter of ruling on the tax-exempt status of the PTA kept in the permanent records and, if required, is a copy filed with the state PTA? ..... | Yes | No |
| <input type="checkbox"/> Has the IRS Form 990, 990-EZ, or E-Postcard been filed with the IRS? (See page xx for more information.....)  | Yes | No |
| <input type="checkbox"/> and been sent to the state PTA office? (State PTAs must forward a copy of their IRS Form 990 to the National PTA headquarters.) .....                     | Yes | No |
| <input type="checkbox"/> Has an IRS Employer Identification Number been secured, and is it on file in the state PTA office? .....  | Yes | No |
| <input type="checkbox"/> If not, has the PTA filed IRS Form SS-4 (Application for Employer Identification Number)? .....   | Yes | No |
| <input type="checkbox"/> Since not all states exempt PTAs from state sales taxes, are appropriate sales tax reports filed as needed? .....   | Yes | No |
| ... Is the PTA incorporated? .....   | Yes | No |
| <input type="checkbox"/> If the PTA is incorporated, has an annual corporate report been filed with the state government, as required? .....                                       | Yes | No |
| <input type="checkbox"/> Does the annual report reflect current officers and/or a registered corporate agent? .....  | Yes | No |

**This checklist should be completed annually, and any outstanding issues should be resolved or corrected.**

**File this checklist with the annual audit and keep it with the permanent financial records.**



# Instructions for IRS Form 990-EZ

## Overview

These instructions are intended to help clarify and supplement the Instructions for Form 990-EZ as published by the IRS. They are not intended to replace those instructions. **Both the form and the IRS instructions are available on the IRS website (IRS.gov), or call the IRS at (800) TAX-FORM (829-3676) to have them mailed to you.**

If you have questions or need additional assistance, please call your state PTA office or National PTA headquarters.

## Items A–L

- A. **Fiscal year**—The fiscal year should be stated in the PTA bylaws and is the 12-month period used to set the activities and budget year of the PTA; for example, July 1, 20XX, through June 30, 20XX.
- B. **Check if applicable**—Check the appropriate box to indicate the type of return: initial return, final return, amended return, or change of address.
- C. **Name, address**—If the Form 990-EZ has a preaddressed mailing label, please attach that label in this box. If there is no preaddressed mailing label, insert the name and address of the PTA.
- D. **Employer identification number**—If there is a preaddressed mailing label, no entry is necessary in this space. If there is not a preaddressed mailing label, insert the PTA's employer identification number.
- E. **Telephone number**—If the PTA does not have an assigned phone number, use the PTA president's phone number.
- F. **Four-digit group exemption number**—If a local PTA has exemption under the state PTA group exemption, enter the four-digit group number here.
- G. **Accounting method**—Normally, local PTAs would check the box marked "Cash."
- H. **For organizations receiving \$5,000 or more, in money or in kind, from any one contributor during the year**—There are some special rules that apply. See instructions for Schedule B before answering.
- I. **Website**—Give the association's Web address or write "N/A" if one is not available.
- J. **Type of organization**—Check the first box if the PTA is a 501(c)(3); Check the second box and insert the number "4" if the PTA is exempt under Section 501(c)(4).

**Please note: If the PTA is exempt under Section 501(c)(3), the PTA must file Schedule A with the Form 990-EZ.**

## Instructions for IRS Form 990-EZ

**Beginning in 2008, all tax-exempt organizations, regardless of gross receipts, are required to file some form of information return.**

**K. Gross receipts less than \$50,000**—If the PTA's annual gross receipts are normally less than \$50,000, check this box. The PTA is not required to complete the rest of this form. Instead file Form 990-N. (To help determine if the PTA's receipts are normally less than \$50,000, refer to the General Instructions B.)

**L. Enter gross receipts**—Add lines 5b, 6b, and 7b to line 9. If gross receipts are \$200,000 or more and/or total assets are \$500,000 or more, you must file Form 990 instead of Form 990-EZ.

### *Part I: Revenue, Expenses, and Changes in Net Assets or Fund Balances*

**Line 1** PTAs may have some income to be entered on this line. Carefully read the IRS instructions to help make that determination.

**Line 2** Enter any income generated from program services. Program services are primarily fees for service activity.

**Line 3** The membership dues collected by the PTA would be entered on this line. Please note: Do not include the portion of membership dues that is sent to a council, state or the National PTA.

**Line 4** If the PTA earned interest on a savings account, certificate of deposit, or other investment, that interest income would be entered on this line.

**Lines 5a, 5b, 5c** Usually, local PTAs would not have entries on these lines.

**Line 6** Check the box for gaming if any special-event amount is from gaming. Gaming includes, but is not limited to, bingo, raffles, casino nights, and coin-operated gambling devices.

**Line 6a** Income entered on this line would be from activities that were not included on line 1 and that did not involve the sale of merchandise. Income on this line is from special fundraising events and activities whose primary purpose is to raise funds.

**Line 6b** Any expenses incurred from the activities reported on line 6a would be entered on this line.

**Line 6c** Subtract line 6b from line 6a.

**Line 7a** Income entered on this line would be from activities involving the sale of merchandise or a product (e.g., T-shirts, pizza, books) and would be income that is not included on line 2 or line 6a minus returns and allowances.

## Instructions for IRS Form 990-EZ

- Line 7b** Any expenses incurred from the activities reported on line 7a would be entered on this line, including the cost to the PTA to purchase the product or merchandise that the PTA resold.
- Line 7c** Subtract line 7b from line 7a.
- Line 8** Any income not already reported would be entered on this line. A description of that income must be included.
- Line 9** Add together lines 1, 2, 3, 4, 5c, 6c, 7c, and 8 and enter the total on this line.
- Line 10** If the PTA distributed some of its funds in the form of grants, that amount would be entered on this line.
- Line 11** A PTA should not have an entry on this line.
- Line 12** A PTA would, generally, not have an entry on this line unless it was an employer.
- Line 13** If the PTA paid for accounting, legal, or other services or made payments to individuals who acted as independent contractors in providing services to the PTA, those expenses would be entered on this line. If payments were made to an independent contractor, the PTA may need to file a Form 1099-MISC. **Do not** include the portion of membership dues that is sent to a council or state PTA.
- Line 14** A local PTA most likely would not have an entry on this line.
- Line 15** Enter amounts for the types of expenses outlined, if those expenses can be determined. (If the PTA publishes a newsletter, those expenses would be entered here.) Do not include any expenses already included on lines 6b and 7b.
- Line 16** Any expense not already included in this report should be entered on this line. A description will have to be attached. (See example below.)
- Line 17** Add together lines 10, 11, 12, 13, 14, 15, and 16 and enter the total on this line.
- Line 18** Subtract line 17 from line 9. If line 17 is more than line 9, enter the difference between the two amounts in parentheses.
- Line 19** The entry on this line would be from last year's Form 990-EZ. It would be the same as the "carry forward" from last year to the beginning of the current year.
- Line 20** A PTA should not have an entry on this line.
- Line 21** Add together lines 18, 19, and 20 and enter the total on this line.

## Instructions for IRS Form 990-EZ

### Schedule for Part I, Line 16

Form 990-EZ, 2011

(Name of PTA)

(Employer Identification Number)

Program expenses .....	960	Insurance.....	200
Supplies .....	180	Lobbying expenses .....	220
Meeting and convention .....	581	<b>Total other expenses.....</b>	<b>\$2,141</b>

### Part II: Balance Sheets

**Line 22(A)** The entry on this line should be the total of all the PTA's funds in its checking and savings accounts or other investments at the beginning of the current year—which is the same as at the end of last year. This amount should be the same as line 19 (if the accounting method specified in item G is cash).

**Line 22(B)** The entry on this line should be the total of all the PTA's funds in its checking and savings accounts or other investments at the end of the current year. This amount should be the same as line 21.

**Line 23(A) and 23(B)** Usually, a local PTA would not have an entry on this line.

**Line 24(A) and 24(B)** Usually, a local PTA would not have an entry on this line.

**Line 25(A)** Add together lines 22(A), 23(A), and 24(A) and enter the total on this line.

**Line 25(B)** Add together lines 22(B), 23(B), and 24(B) and enter the total on this line.

**Line 26(A) and 26(B)** Usually, a local PTA would not have an entry on this line. However, if there is a balance due to the state PTA for state and national dues, that amount would be entered here.

**Line 27(A)** Subtract the entry on line 26(A) from the entry on line 25(A).

**Line 27(B)** Subtract the entry on line 26(B) from the entry on line 25(B). Please note: The entry on line 27(B) must agree with the entry on line 21.

### Part III: Statement of Program Service Accomplishments

This is a very important part of the 990-EZ. This should be a thoughtful collaboration of the executive leadership. Funders pay particular attention to this area. Review the IRS instructions very carefully. The following are examples of programs:

## Instructions for IRS Form 990-EZ

**Line 28** Parent Involvement. Add together all expenses related to this program service and enter them under "Expenses" on line 28a. Fully describe the types of services provided. Include any expenses in the form of grants in the space provided.

**Lines 29, 30, and 31** Same instructions as for line 28.

Line 32 Add together the "Expenses" from lines 28a, 29a, 30a and 31a and enter that total on this line. Please note: The total does not have to equal the total amount of expenses listed on line 17.

### *Part IV: List of Officers, Directors, Trustees, and Key Employees*

List **each and every** officer and board member of the local PTA. Attach a separate sheet of paper if necessary. In columns C, D, and E, a PTA would usually enter a zero.

### *Part V: Other Information*

**Line 33** PTAs would usually answer "No."

**Line 34** PTAs would usually answer "No." Examples to answer yes would be changes in bylaws, etc.

**Line 35a** PTAs would usually answer "No." If the answer is "Yes," you are required to file Form 990-T to report unrelated business income.

**Line 36** PTAs should answer "No" unless the PTA is dissolving.

**Line 37a** Enter a zero.

**Line 37b** PTAs should answer "No." A 501(c)(3) organization will lose its tax-exempt status if it engages in political activity.

**Line 38a** PTAs should answer "No." They should not be engaged in this activity.

**Line 39a and 39b** No response is required.

**Line 40a** Enter the amount of excise tax paid for each section: 4911 (excess lobbying expenditures), 4912 (disqualifying lobbying expenditures), 4955 (political expenditures). The amount in each should be zero for local PTAs.

**Line 40b** Refer to "Excess Benefit Transactions," on page 34 of this guide, for a definition of excess benefit transaction. Local PTAs should enter "No."

**Lines 40c, 40d, and 40e** Should be zero for local PTAs.

## Instructions for IRS Form 990-EZ

- Line 41** Insert state name if required.
- Line 42a** List the name, phone number, and address of the current treasurer.
- Line 42b** PTAs would usually answer "No."
- Line 42c** PTAs would usually answer "No."
- Line 43** No response is required.
- Line 44** PTAs would usually answer "No." to all.
- Line 45a, 45b** PTAs would usually answer "No."
- Line 46** PTAs would usually answer "No."
- Line 47** PTAs would answer "No."
- Line 48** PTAs would answer "No."
- Line 49** PTAs would usually answer "No."
- Line 50** This line is only applicable to PTAs with highly paid staff (greater than \$100,000 per calendar year)
- Line 51** This would not be applicable for most PTAs.
- Line 52** Answer "Yes" and attached Schedule A.

### Sign and date the return.

#### It should be signed by the president.

**PTAs exempt under Section 501(c)(3) must also complete and file Schedule A. PTAs exempt under Section 501(c)(3) may be required to complete and file Schedule B.**

**The completed Form 990-EZ must be mailed to the IRS service center by the 15th day of the fifth month following the end of the PTA's fiscal year.**

**RETAIN A COPY OF THE COMPLETED Form 990-EZ FOR THE PTA's PERMANENT RECORDS.**

**You should also forward a copy to your state office.**

## Instructions for IRS Form 990-EZ

### Schedule A (Form 990 or 990EZ):

Schedule A provides the IRS with information that is generally not available on Form 990 itself. The schedule is focused on determining whether the organization's actions during the past year were consistent with its tax-exempt status. If they were not, the entity's tax exemption may be at risk. Given the importance of this issue, the completion of Schedule A should not be taken lightly by those organizations required to file it.

Schedule A must be filed regardless of whether an entity prepares its annual report on Form 990 or 990-EZ. However, organizations exempt from filing an annual report are not required to complete Schedule A.

### Schedule B (Form 990 or 990-EZ): Is Schedule B Necessary?

To determine whether your PTA is required to file Schedule B, first complete your PTA's Form 990-EZ or 990. If the total of line 1 on 990-EZ or line 1d on 990 and the membership dues on line 3 is greater than 33 1/3 percent of total revenue (see line 9 on 990-EZ and line 12 on 990), then your PTA will be required to file Schedule B.

**Example:** Line 1—Contributions, gifts, grants, and similar amounts received: \$1,000— plus line 3—Membership dues and assessments: \$1,200—is 54.2 percent of line 9—Total revenue: \$4,062. Since 54.2 percent is greater than 33-1/3 percent, this PTA cannot mark the box in item H. Instead, this PTA will need to file Schedule B.

Next, determine whether any one contributor has given the greater of \$5,000 or 2 percent of line 1 on 990-EZ or 1d on 990. For instance, if line 1 is \$50,000, 2 percent is \$1,000. This PTA would fill out Schedule B for any contributor who gave \$5,000 (the greater amount) or more for the entire year. If no one contributor gave the greater amount, then Schedule B would be attached to the Form 990-EZ or 990, with "N/A" noted in Part I of the schedule. No other information would be needed.

**Please note:** Schedule B is not a substitute for the list of contributors required for Part IV-A (Support Schedule) of Schedule A. Also, Schedule B is not open to public inspection and should not be furnished when a request for a copy of the Form 990 is fulfilled.

Please refer to the IRS instruction booklet for Schedule B for line-by-line instructions on how to complete Schedule B.

## PTA Resources

### Frequently Asked Questions

If you have a question about the finances in your organization, contact your state PTA or National PTA headquarters. Following are answers to some of the more frequently asked questions.

**Q: Does a PTA or school hosting a movie night need to pay a special charge or receive a special permit?**

*A: Yes. Movies are protected by copyright. A special license must be purchased to show movies to large groups. Movies shown in schools are not considered educational events. Go to the Movie Licensing USA website, [movlic.com/k12/schools.html](http://movlic.com/k12/schools.html), for more information. Movie Licensing USA is the sole licensing agent for most of the major studios.*

**Q: Can our PTA donate money to other nonprofit organizations?**

*A: If permitted by the PTA bylaws, the PTA can vote to donate its funds to a nonprofit organization. The recipient must be a 501(c)(3) nonprofit organization and must have a mission similar to PTA's, that is, it must be school- or child-related. Units should not donate to individuals, such as a fund for a child needing an organ transplant, because the PTA mission focuses on all children.*

**Q: Where can I find a list of what we can and cannot spend money on?**

*A: There is no published list from either the National PTA or the IRS. Your mission and your 501(c)(3) (tax-exempt) status should guide your decisions. Expenditures from the PTA budget must support the PTA mission. If there is a question about an expenditure, a good rule of thumb is to authorize the expenditure only if you could defend the expense to the IRS in case of an audit. You can find additional resources that address this issue on the IRS website.*

**Q: What if the IRS contacts me?**

*A: Whenever the IRS contacts you, read their letter carefully. Be certain you understand their request or concern. Gather all of the facts related to the issue or concern addressed in their letter. Mark the deadline issued in the letter and do not miss it. Contact the IRS, if necessary, and ask for clarification if the request or issue is not clear to you. Be certain to get the name and serial number of the agent assisting or answering your questions. Take notes of the conversation; the agent with whom you are speaking is taking notes and recording the call.*

*Once you are certain you understand the issue or concern raised by the IRS, clearly address the issue as calmly and on-point as possible. Do not digress. Once you have addressed the IRS's issue or concern, state clearly what you want in return. For example, if the IRS's letter states that you have not filed a 990 and they want you to pay a large fine, you need to provide copies of the 990 if you filed it, or the reason why you didn't file. Then you can request an abatement of the fees.*

*Be prepared to address a minimum of three letters regarding this issue before a resolution is found. But don't panic or lose hope. If you are in the wrong, explain what happened, show what you did to correct the problem, and reassure them that it won't happen again.*



**Contact Us**

*For additional resources on managing your PTA, visit [PTA.org](http://PTA.org).*

Manage your membership and data with the help of Just Between Friends. The system for local leaders is available at [JustBetweenFriends.com/PTAquickstart](http://JustBetweenFriends.com/PTAquickstart). Contact your state PTA and National PTA headquarters for support.

**National PTA**

1250 N. Pitt Street

Alexandria, VA 22314

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

E-mail: [info@PTA.org](mailto:info@PTA.org)

Website: [PTA.org](http://PTA.org)

**State Offices**

Find a web directory of all PTA state offices at [PTA.org/States](http://PTA.org/States).

## Letter to clarify school vs. PTA funds.

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March 18, 2011

National PTA Headquarters  
1250 N. Pitt Street  
Alexandria, Virginia 22314

Ladies and Gentlemen:

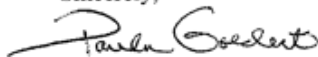
As you know, we serve as legal counsel for the National PTA. You have informed us that, from time to time, school personnel and other government representatives seek to assert control over or direct the use of funds of local PTAs. The purpose of this letter is to describe the structure of local PTAs and to confirm that they represent independent nonprofit entities which are subject to direction only by their state PTA and the National PTA.

The PTA has a tri-level structure: National, state and local. The National PTA is a nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has established affiliates in all states to establish and direct local PTAs. Both the National PTA and the state PTAs have established strict procedures for chartering PTAs at the local level. Local PTAs are also nonprofit entities exempt from federal income tax.

Local PTAs are not supporting organizations, clubs or booster groups for any schools. They are separate legal entities which further the PTA mission of providing parents and families with a powerful voice to speak on behalf of children. Local PTAs work in harmony with school personnel, but they are not part of any school and are not subject to direction or control in any manner by school personnel.

We trust this explanation clarifies the status of local PTAs and will prevent misunderstanding in the future.

Sincerely,



Paula Cozzi Goedert  
Partner

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Atlanta Chicago Delaware Indiana Michigan Minneapolis Ohio Washington, D.C.

**Notes**

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# Notes