

# Finance

The California State PTA recommends  
this entire Finance Section be copied for all financial officers/chairmen.  
Insert the *Insurance and Loss Prevention Guide* at the end of this section.

## Table of Contents

<b>5.0 Conflict of Interest Policy</b> .....	<b>177</b>
5.0.1 Definitions	177
5.0.2 Policy and Practices	177
<b>5.1 Financial Officers</b> .....	<b>178</b>
5.1.1 Treasurer Duties	178
5.1.2 Financial Secretary Duties	179
5.1.3 Auditor Duties	179
5.1.4 Sample Financial Calendar of Activities	179
5.1.5 Contents of the Treasurer's File	180
5.1.6 Records Retention Schedule and Destruction Policy	180
5.1.7 Financial Officers' Reports	181
5.1.8 Financial Officers Leaving Office	182
<b>5.2 The Budget</b> .....	<b>182</b>
5.2.1 Developing the Budget	182
5.2.2 Recommended Budget Line Items	182
5.2.3 Funds Not Belonging to the Unit	183
5.2.4 Approving the Budget	183
5.2.5 Authorizing Expenditures	183
5.2.6 Request for Advance	184
5.2.7 Amending the Budget	184
<b>5.3 Banking</b> .....	<b>184</b>
5.3.1 Records and Supplies Needed for Banking	184
5.3.2 Computer-Generated Financial Records	184
5.3.3 Bank Statements	185
5.3.4 Cash Handling	185
5.3.5 Deposits	185
5.3.6 Checking Account	185
5.3.7 Check Request System: Payment Authorization	186
5.3.8 Petty Cash	187
5.3.9 Savings Account	187
5.3.10 Investments	187
5.3.11 Returned Not Sufficient Funds Checks	187
5.3.12 Fundraising Receipts and Expenditures	188
5.3.13 Non-Dues Revenue	188
5.3.14 PTA Funds vs. School Funds	189
5.3.15 Commingling of Funds	189
<b>5.4 The PTA Audit</b> .....	<b>189</b>
5.4.1 Audit Schedule	189
5.4.2 Purpose of an Audit	189
5.4.3 Preparation for an Audit	189
5.4.4 Audit Procedure	190
5.4.5 Audit Report	191
5.4.6 Internal Revenue Service (IRS) Audit	192
5.4.7 Mismanagement of Funds/Embezzlement	192

<b>5.5 General Operating Information</b> .....	<b>193</b>
5.5.1 Contracts	193
5.5.2 Hold Harmless Agreement	194
5.5.3 Bonding and Insurance	194
5.5.4 Insurance and Loss Prevention Guide	195
5.5.5 Special Request for Professional Opinion	196
<b>5.6 PTA as an Employer</b> .....	<b>196</b>
5.6.1 Employee vs. Independent Contractor	196
5.6.2 Approving Projects That Require Employees	197
5.6.3 Comprehensive General Liability Insurance for Independent Contractors	197
5.6.4 Workers' Compensation Insurance	197
5.6.5 Workers' Compensation Annual Payroll Report	198
5.6.6 Employer Tax and Withholding Requirements	198
5.6.7 Filing Requirements for Employers	199
5.6.8 Penalties	199
5.6.9 Filing Requirements for Independent Contractors	199
<b>5.7 Tax Requirements</b> .....	<b>199</b>
5.7.1 Employer Identification Number (EIN)	199
5.7.2 Tax Exempt Status and Letters of Determination	199
5.7.3 Sales Tax	200
5.7.4 Federal Taxes	200
5.7.5 State Taxes and Government Forms	201
5.7.6 Gross Receipts	201
5.7.7 Unrelated Business Income Tax	201
5.7.8 Filing Due Dates	202
5.7.9 Officer Responsibilities for Filing	202
5.7.10 Resources	202
<b>5.8 Financing Programs or Purchases</b> .....	<b>202</b>
5.8.1 Gifts to Schools	202
5.8.2 Staff Appreciation	203
5.8.3 Units Purchasing Computers for Schools	203
5.8.4 PTA and Education Foundations	204
5.8.5 Academic Enrichment Programs	204
5.8.6 PTA-Provided Baby-Sitting Services	205
5.8.7 Handling Requests for Relief Assistance	205
<b>5.9 Fundraising for PTAs</b> .....	<b>206</b>
5.9.1 Protecting PTA Tax Exemption	206
5.9.2 Local Requirements for Fundraising	206
5.9.3 Standards for PTA Fundraising	206
5.9.4 Noncommercial Policy	207
5.9.5 Selecting Appropriate Fundraising Activities	208
5.9.6 Obtaining Grants	212
<b>5.10 Financial Procedures for the Internet</b> .....	<b>212</b>

## 5.0 Conflict of Interest Policy

### 5.0.1 Definitions

Conflict of Interest (also Conflict) means a conflict, or the appearance of a conflict, between the private interests and official responsibilities of a person in a position of trust. Persons in a position of trust include staff members, officers, and member of the board of a unit, council or district of the California State PTA. Board means the board of directors, executive board or executive committee.

Officer means an officer of the board of directors, executive board or executive committee.

Staff member means a person who receives all or part of her or his income from the payroll of any unit, council or district as well as the California State PTA.

Member of the board means a board of manager, board of director, executive board or executive committee.

Supporter means corporations, foundations, individuals, 501(c)(3) nonprofits, and other organizations which contribute to the California State PTA.

### 5.0.2 Policy and Practices

1. In accordance with the *California State PTA Bylaws, Article IV, Section 6*: A PTA member shall not serve as a voting board member of a constituent organization at the local, council, district PTA, region, state or national level while serving as a paid employee of, or under contract to, that constituent organization.

2. **Related Party Provision.** For purposes of this provision, the term "interest" shall include personal interest, Interest as director, officer, member, stockholder, shareholder, partner, manager, trustee or beneficiary of any concern and having an immediate family member related by blood or marriage or member of the same household who holds such an interest in any concern. The term "concern" shall mean any corporation, association, trust, partnership, limited liability entity, firm, person or other entity other than the organization.

No officer or board member of the association shall be disqualified from holding any office in the association by reason of being related to any person that has any interest in any concern. An officer or member of the board of the association shall not be disqualified because they are a related party from dealing, either as a vendor, purchaser or otherwise, or contracting or entering into any other transaction with the association or with any entity of which the association is an affiliate. No transaction of the association shall be voidable by reason of the fact that any officer or member of the board of the association is related to a person that has an interest in the supporter with which such transaction is entered into, provided:

- a. The interest of such officer or member of the board is fully disclosed to the board of directors.

- b. Such transaction is duly approved by the board of directors not so interested or connected as being in the best interests of the association.

- c. Payments to the related party of the interested officer or the member of the board are reasonable and do not exceed fair market value that shall be determined by a three bid process.

- d. No officer or member of the board may vote or lobby on the matter or be counted in determining the existence of a quorum at the meeting at which such transaction may be authorized.

- e. Every officer and member of the board shall complete the annual questionnaire at the beginning of each fiscal year. This document shall be maintained as provided in the document retention policy.

1. Following full disclosure of a possible conflict of interest, the Board of Directors shall determine whether a conflict of interest exists and if there is a conflict, the Board shall vote to authorize or reject the transaction or take any other action deemed necessary to address the conflict and protect the California State PTA's best interests. Both votes shall be by a majority vote without counting the vote of any interested board of director.

2. An interested member of the board, officer, or staff member shall not participate in any discussion or debate of the Board, or of any committee or subcommittee, in which the subject of discussion is a contract, transaction, or situation in which there may be a perceived or actual conflict of interest. However, they may be present to provide clarifying information in such a discussion or debate unless objected to by any present member of the board.

3. Anyone in a position to make decisions about spending the PTA's resources (i.e., transactions such as purchases and contracts) – who also stands to benefit from that decision – has a duty to disclose that conflict as soon as it arises or when it becomes apparent; he or she should not participate in any final decisions.

4. A copy of this policy shall be given to all members of the board, officers, and staff members upon commencement of such person's relationship with the PTA or at the official adoption of this policy. Each board member, officer, and staff member shall sign and date the policy at the beginning of his or her term of service or employment and each year thereafter. Failure to sign does not nullify the policy.

5. Each member of the board, officer, and staff member shall annually sign a statement which affirms such person:

- a. Has received a copy of this conflicts of interest policy,
- b. Has read and understands the policy,
- c. Has agreed to comply with the policy, and

d. Understands that the Units, Councils, and Districts as constituent units of the California State PTA as a nonprofit corporation and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

## 5.1 Financial Officers

Financial officers are elected to manage the fiscal operations of the unit, council and district PTA. These officers include treasurer (required), financial secretary (optional) and auditor (optional). All unit, council and district PTAs are required to have an auditor who may be elected, appointed, or hired in accordance with bylaws.

Upon assuming office, the incoming treasurer obtains the following from the outgoing treasurer: supplies, ledger, checkbook, tax records, backup copy and the master copy of the accounting program if the books are maintained on a computer, and all other treasurer materials including the procedure book from the previous office holder. Additional records may be obtained from the bank and supplies purchased from the California State PTA office. The new treasurer must also contact the bank and file new signature cards for checking and savings accounts. Banks may require minutes of the election meeting recording names of new officers.

The items listed above are necessary for the financial operation of the association. When a new unit is established, the treasurer should request assistance from council or district PTA in obtaining them.

The outgoing treasurer cannot pay bills after the books are closed for audit or after the term has ended. Books being audited may not be available immediately. The California State PTA recommends that if the audit is not completed within two (2) weeks after the end of the term of office, the president may appoint a committee to immediately audit the books. The same time frame must be followed for the semi-annual audit. Upon assuming office, the incoming treasurer may pay authorized bills and deposit funds in the PTA bank account before the audit is completed.

### 5.1.1 Treasurer Duties

Keep permanent records that track gross income, receipts and disbursements of the association, including the number of members, dues collected and the total per capita dues remitted through channels to the California State PTA. The treasurer shall make these financial records available for inspection by an authorized representative of either the California State PTA or National PTA.

Chair the budget committee and prepare the budget for adoption by the association (Developing the Budget, 5.2.1).

Receive all monies from the financial secretary or from other volunteers counting monies received. Give a

receipt. Deposit immediately in the name of the association in a bank approved by the executive board.

Receive and retain a copy of the deposit slip for any deposit made.

Pay all bills as authorized by the executive board or the association and on receipt of payment authorization signed by the president and the recording secretary.

Secure two authorized signatures on all checks. Any two elected officers (with the exception of the secretary and officers related by blood, marriage, or living in the same household) may be authorized to sign checks. Refer to bylaws to determine who is authorized within the unit, council or district PTA.

Keep an accurate record of receipts and disbursements in a **ledger**, which is a permanent record of the PTA (Records Retention Schedule, 5.1.6).

Report expenditures to the membership as they relate to the budget adopted by the association.

Each month, remit portions of per capita dues through channels (Unit Remittance Form 5.1.7f; Per Capita Dues 3.2.2; Forms 9).

Prepare and present a Treasurer's Report (Treasurer's Report 5.1.7a; Forms 9) at every association and executive board meeting. The Treasurer's Report shall also be presented at other times, when requested by the association.

Be responsible for completing and forwarding all necessary report forms required by the California State PTA for insurance and for filing all tax returns and other forms required by government agencies (Tax Requirements 5.7).

Make an Annual Financial Report (Annual Financial Report 5.1.7e; Forms 9) to the association that includes gross receipts and disbursements for the year.

Maintain continuous and direct communication with the president regarding finances. Advise board members of the status of the treasury and their individual budgets.

Budget for proposed programs with information provided by the program committee chairman.

Be aware of due dates (including postmark dates) for all financial transactions.

Prepare for a mid-year and year-end audit in the months stipulated in the bylaws.

Use a **ledger** (Forms 9) to track association receipts and disbursements.

For more information on Treasurer's Duties, see *Bylaws for Local PTA/PTSA Units* Article VI, Section 6.

Advise all board members of the date the books will close so that they can turn in all outstanding expenses before that date.

Attend the California State PTA convention finance workshops.

Attend council and district PTA workshops and trainings, when scheduled.

If the PTA has a bulk mail permit, verify funds are maintained in the account.

**For more information** on financial positions contact the California State PTA Treasurer at [treasurer@capta.org](mailto:treasurer@capta.org) or 916.440.1985 ext. 309

### 5.1.2 Financial Secretary Duties

Give a receipt for all monies received for the association and either turn funds over to the treasurer or deposit in the PTA bank account. Give a copy of the deposit slip to the treasurer for the association's records.

Keep an accurate record of all receipts and payment authorizations for the treasurer's financial records.

Prepare all payment authorizations as approved by the executive board or the association. Forward authorizations to the president and recording secretary for signatures.

Prepare and present a Financial Secretary's Report (Forms 9) at association and executive board meetings and at other times when requested by the association. The report must include an accurate record of all receipts, deposits and authorizations for payment.

Report all funds deposited to the treasurer. These totals shall be included in the Annual Financial Report to the association.

Perform such other duties as may be delegated to the financial secretary by the president or treasurer.

Attend the California State PTA convention finance workshops.

Attend council or district PTA workshops and trainings, when scheduled.

For more information on Financial Secretary's Duties, see *Bylaws for Local PTA/PTSA Units* Article VI, Section 7.

For more information on Auditor's Duties, see *Bylaws for Local PTA/PTSA Units*, Article VI, Section 8.

### 5.1.3 Auditor Duties

Audit the books and financial records of the association semiannually.

Prepare a mid-year and year-end audit in the months stipulated in the bylaws.

Prepare and present written reports to the executive board in the months stipulated in the bylaws.

Prepare and present written reports for adoption by the association in the months stipulated in the bylaws.

The outgoing auditor is responsible for conducting the audit at close of term. The California State PTA recommends that if the audit is not completed within two (2) weeks after the completion of the term of office, the president may appoint a committee to immediately audit the books. The same time frame must be followed for the semi-annual audit.

Audit the books upon resignation of the treasurer, financial secretary or any check signer, or at any time deemed necessary by the executive board.

### 5.1.4 Sample Financial Calendar of Activities

*(Year-round PTAs adapt accordingly)*

#### UPON ELECTION

Treasurer-elect chairs budget committee.

Present budget to the executive board for approval.

Board-elect develops and adopts preliminary budget based on proposed PTA programs for the upcoming year.

Present proposed budget to the current executive board and the membership at the last PTA meeting of the year. (This allows the board-elect the ability to cover routine summer expenses as outlined in the bylaws.)

#### AUGUST/SEPTEMBER

Re-present budget to association for adoption at its first meeting.

Send approved audit and year-end financial report and current year budget to council or district as directed.

Send the first remittance of per capita dues **through channels**. Send monthly thereafter.

#### OCTOBER

Prepare tax forms and file as required. Forward copies of tax returns to council or district as directed (Tax Requirements 5.7).

#### NOVEMBER/DECEMBER

Send checks for insurance premiums **through channels**. Do not send checks directly to the California State PTA office or the insurance broker.

Complete and send the Workers' Compensation Annual Payroll Report through channels whether or not the association has employees.

Review PTA as an Employer 5.6 for additional filing requirements.

#### JANUARY

Submit books and financial records for mid-year audit, as specified in the bylaws.

Revise budget, if necessary.

**through channels:** The route of formal communications through the PTA. Typically from unit to council, council to district PTA, district PTA to California State PTA.

Pay annual U.S. Postal Service Bulk Mailing permit fee, if required.

Ensure that Workers' Compensation form and insurance premiums have been forwarded through channels. The premium must be forwarded through PTA channels to be received in the California State PTA office by January 31, or a late fee of \$25 will be assessed by the California State PTA. **Postmarks will not be accepted.**

## FEBRUARY

Send Founders Day freewill offering through channels to district PTA, when collected. The event may be held during a month other than February.

Determine if convention registration fees are payable.

## MARCH

Ensure all per capita dues have been forwarded through channels, in accordance with established due dates.

## APRIL

Issue convention checks for authorized expenditures for elected delegates.

## MAY/JUNE

Attend workshops for financial officers, when offered.

Submit books and financial records to outgoing auditor for end-of-term audit, as stipulated in the bylaws (after close of fiscal year).

Give financial records and materials to the incoming financial officer (except those in audit).

Obtain new bank account signature cards to assist the incoming officers.

Prepare Annual Financial Report and tax returns (end of fiscal year).

*Other pertinent dates should be added (or adjusted) to the calendar to meet time frames specific to each PTA and fiscal year.*

### 5.1.5 Contents of the Treasurer's File

A complete treasurer's file should contain the following:

- All auditors' reports
- Budget
- Bylaws and standing rules
- Certificate of Insurance
- Copy of Insurance and Loss Prevention Guide
- Copy of IRS Letter of Determination for Tax Exemption
- Correspondence
- District-specific information
- Employee records, current
- Federal Employer Identification Number (EIN)

- Corporate number and California State Franchise Tax Board number, if applicable
- Annual financial reports
- Monthly financial reports
- Remittance forms to council and/or district PTAs
- Workers' Compensation Annual Payroll Report
- *National PTA Quick-Reference Guide*, Money Matters
- *California State PTA Toolkit*, Finance, Chapter 5.
- Recommendations for successor

### 5.1.6 Records Retention and Destruction Policy

It is very important that certain records be retained. Listed here are items that must be reviewed on a periodic basis and kept in a safe place. Members of the executive board must properly dispose of records by shredding the document within 30 days of the expiration of the holding period.

#### 5.1.6a PERMANENT STORAGE

Annual audit reports

Articles of Incorporation

Canceled checks for important transactions (e.g., taxes, contracts). Checks should be filed with papers pertaining to each transaction.

Corporation exemption documents (if incorporated)

Corporation reports filed with the Secretary of State

Legal correspondence

Group exemption documents

Insurance records:

- Accident reports
- Claims
- Employee Acknowledgement Forms
- Insurance Incident Reports
- Policies

Ledgers

Minutes of executive board, and association (bound)

PTA Charter

Tax documents:

- Exempt status
- Group exemption
- Letter assigning IRS Employer Identification Number (EIN) (Employer Identification Number 5.7.1; Forms 9)
- State and federal tax forms, as filed

Correspondence with state or federal agencies

Trademark registrations

### 10 YEARS

Financial statements (year-end) and budgets

Grant award letters of agreement

### 7 YEARS

Payment authorization and expense forms (receipts attached) for payments to vendors or reimbursement to officers

Cash receipt records

Checks (other than those listed for permanent retention)

Bank statements that contain photocopies of canceled checks

Expired contracts and leases

Invoices

Purchase orders

Sales records

### 3 YEARS

General correspondence

Employee records (post-termination)

Employment applications

### 1 YEAR

Bank reconciliations

Correspondence with vendors if non-contested

Duplicate deposit slips

Current Bylaws, approved by state parliamentarian

Standing Rules

Certificates of Insurance

Inventories of products and materials, updated yearly

### 5.1.7 Financial Officers' Reports

#### 5.1.7a TREASURER'S REPORT (Forms 9)

A monthly report must include

- balances at the beginning and end of the period covered;
- amounts credited to the general fund and any special funds;
- receipts and disbursements with a detailed written report;
- The report must be posted and/or distributed. Copies of the report must be provided to the president and

The Monthly Treasurer's Report includes: balances at the beginning and end of the period covered; amounts credited to the general fund and any special funds; and receipts and disbursements with a detailed written report posted and/or distributed. Copies of the report must be provided to the president and secretary and added to the treasurer's file.

secretary and added to the treasurer's file, which must be placed on file for audit.

#### 5.1.7b FINANCIAL SECRETARY'S REPORT (Forms 9)

A monthly report must reflect the duties of a financial secretary, as assigned in the bylaws, and must include

- Itemized listing of receipts
- Itemized listing of deposits
- Itemized listing of Authorizations for Payment

#### 5.1.7c AUDITOR'S REPORT (Forms 9)

A written Auditor's Report must be presented semiannually to the executive board and association after the books and financial records of the association have been audited. If all is in order, the auditor or audit committee should prepare a report, and the auditor and each member of the committee should sign it.

A report must also be submitted by the audit committee in the event that there are not adequate records available to conduct a proper accounting of the association funds. The audit report must be officially adopted by the association and forwarded through channels to the next level of PTA (Audit Report 5.4.5, Forms 9).

#### 5.1.7d WORKERS' COMPENSATION ANNUAL PAYROLL REPORT (Forms 9)

All unit, council and district PTAs must file a Workers' Compensation Annual Payroll Report annually. Reports must be forwarded through channels and received by the California State PTA no later than January 31.

If no one was employed during the report period, complete the information as requested and write "no payment made" in the area where one would list the employee's name.

If workers were paid (even for one hour), report the name of the worker, specific type of work performed, date worked, amount paid and whether the worker carried personal Workers' Compensation insurance. If the PTA does not pay the worker directly but donates the money to the school, **do not list the worker.**

Individuals paid directly are considered to be hired by the PTA and listed on this form (PTA as an Employer 5.6). You must be specific about what type of work is performed (see Sample Workers' Compensation Annual Payroll Report, Forms 9).

- Baby-sitters must be listed on this form as employees of the PTA (PTA-Provided Baby-Sitting Services 5.8.6).

- Off-duty policemen hired by PTA, with payment made by the PTA directly to the officer, are considered employees.
- Individuals paid by a school district or other employer are NOT considered to be hired by the PTA and are not listed on this form.
- Cafeteria and custodial employees who are employed by the school district and whose services are normally arranged by the school administrator are not considered PTA employees. If PTAs pay for the services of such district employees, the PTA pays the school district for such services.
- Payments to police departments or security agencies for security personnel are not included, if the persons were salaried by the department or agency during the period of service to the PTA.

#### 5.1.7e ANNUAL FINANCIAL REPORT (Forms 9)

The Annual Financial Report reports gross receipts and disbursements for the fiscal year. The report is distributed to the executive board, to the membership, and may be required by federal and state tax agencies. The council and district PTA also require reports.

#### 5.1.7f UNIT REMITTANCE FORM (Forms 9)

The Unit Remittance Form accompanies the per capita dues, insurance premiums and freewill offerings submitted through channels to the California State PTA office.

#### 5.1.8 Financial Officers Leaving Office

Financial records should be put in order for the auditing process shortly before the end of the term of office. The audit must be completed as quickly as possible. The outgoing treasurer cannot pay bills after the books are closed for audit or after the term of office ends. Upon assuming office, the incoming treasurer may deposit funds in the PTA bank account and pay authorized requests for reimbursement bills as needed.

## 5.2 The Budget

The budget is a financial representation of the activities and operations a PTA expects to conduct during a specified time period. The budget estimates income and expenses for the fiscal year and must be presented to the association for approval and recorded in the association minutes. The budget must coincide with the association's fiscal year.

### 5.2.1 Developing the Budget

The budget committee, which is appointed by the president (or president-elect if the budget is being developed for the new term in advance of taking office), has the responsibility for developing the annual budget. The treasurer (or treasurer-elect if the budget is being developed for the new term in advance of taking office) is designated as the committee chairman. The budget committee may include financial officers, the principal or other

designated representative, the president (ex officio), and others. The committee should:

- Invite board members to submit suggestions.
- Survey the association's needs and probable costs.
- Review the program(s) proposed by the program committee, including detailed expense projections.
- Meet soon after election to prepare the budget.
- Review past budgets, income, and expenditures.
- Estimate probable income from all sources.
- Balance probable income with probable expenses.
- Unallocated Reserve funds represent the amount remaining after making allocations for budgeted programs and activities and may be used to cover any unexpected or unplanned expenses in the current fiscal year.
- Carry-over funds represent the amount which is set aside to begin operations at the beginning of the next PTA fiscal year, prior to the onset of fundraising activities.

### 5.2.2 Recommended Budget Line Items

When developing a PTA budget, consider including the following line items:

**Carry-over Funds:** Carry-over funds represent the amount which is set aside to begin operations at the beginning of the next PTA fiscal year, prior to the onset of fundraising activities. To calculate the amount of this reserve, review the prior year's Annual Financial Report to determine which operation or program expenses require funding during transition, and estimate costs for these items in the new fiscal year.

**Convention:** The annual California State PTA convention is usually held at the end of April or the first part of May. The unit should budget enough money to cover the cost of registration, hotel room, transportation and food for the allowed number of delegates based on the unit's membership (Attending Conventions and Conferences 2.8).

**Donations:** PTAs may ask community supporters to donate funds for a specific program.

**Fundraisers:** Fundraising income is the gross income from the fundraiser. List each fundraiser individually. The expenses for conducting each fundraiser should be listed under Expenses individually by fundraiser.

**Gross Income:** This includes the total amount of income for the year, excluding council, district, State, and National PTA portions of the per capita dues and freewill offering.

**Insurance:** Participation in the California State PTA insurance program is required of all PTAs in California. Budget an amount that is similar to the actual expense from the previous year's premium. Units are notified of

the premium amounts each year in November. The premium must be forwarded through PTA channels to be received in the California State PTA office by January 31, or a late fee of \$25 will be assessed by the California State PTA. Postmarks will not be accepted.

**Membership Dues:** Each association determines its own membership dues, but a portion of each membership must be forwarded through channels. The forwarded funds are listed as “Funds Not Belonging to the Unit.” The budget should only reflect the amount of dues the unit retains as income.

**Membership Envelopes:** The purchase or printing of membership envelopes is listed as an expense.

**Reimbursable Expenses:** PTA should reimburse executive board members for any approved out-of-pocket expenses. PTA funds may not be used for personal expenses, personal acknowledgments, or personal use items. Appropriate out-of-pocket expenses include photocopies, office supplies, etc. Unit, council and district PTAs should budget for out-of-pocket expenses and reimburse member upon submission of an expense statement and/or receipts. Receipts must be submitted for all reimbursable expenses. Unit, council and district PTAs may not budget for an officer’s allowance. The IRS considers an allowance as miscellaneous income that must be declared by the recipient as such and will be taxed accordingly.

**Staff Appreciation:** PTA resources may be used for hospitality for staff appreciation as long as it does not represent a significant amount. “Not of a significant amount” is defined by the IRS as an amount that does not exceed 5 percent (5%) of the nonprofit organization’s annual budget (see Staff Appreciation 5.8.2).

**Training/Workshops:** Budget funds to send executive board members to council, PTA district, and California State PTA workshops.

**Unallocated Reserve:** Unallocated reserve funds represent the amount remaining after making allocations for budgeted programs and activities and may be used to cover any unexpected or unplanned expenses in the current fiscal year with approval of the association.

### 5.2.3 Funds Not Belonging to the Unit

Council, district, State, and National PTA portions of membership dues and the Founders Day freewill offering are not a part of the unit’s funds to be used for expenses. They should not be included in the annual budget as receipts for budget planning purposes. They also are not included in the gross receipts when reporting to the IRS (Gross Receipts 5.7.6). These funds can be paid without the authorization of the membership. Such funds should be forwarded through channels immediately. Council or district PTA remittance forms must be issued to track and provide payment authorization.

All disbursement of funds not belonging to the unit must be recorded in the next treasurer’s report and payment reported to the association. Council and district PTAs

set their own dates far enough in advance of the California State PTA due dates to have sufficient time for such transfers to be received by the California State PTA office (Budget Sample, Forms 9).

#### 5.2.3.a SCHOOL BOND AND OTHER BALLOT MEASURE CAMPAIGNS

A PTA may spend a portion of its funds on election issues that have an impact on the education, health, or well-being of children and youth (Legal Guidelines for Campaign Activity 4.3.3a).

A PTA may assist in raising funds or soliciting individual donations for coalitions or election issue campaign organizations without reporting the amounts as PTA income, provided that all donations are strictly voluntary and the funds are given directly to the campaign organizations and not funneled through the PTA. Donations must not be made payable to PTA and may not be deposited in any PTA account.

### 5.2.4 Approving the Budget

The PTA shall not assume any financial obligation in any one term of office that will be carried over into the succeeding term. The proposed budget must be presented to and voted upon by the executive board and recommended for adoption to the association each year. After the budget is adopted by the association, it should be followed closely in all financial transactions. Adoption of the budget does not authorize the expenditure of the funds (Authorizing Expenditures 5.2.5).

For additional information on approval of budget, see *National PTA Quick-Reference Guide*, Money Matters.

#### Approving the Budget

*Bylaws for Local PTA/PTSA Units*, Article VII, Association Meetings, Section 3.

### 5.2.5 Authorizing Expenditures

**Adoption of the budget does not authorize the expenditure of the money.** Bills must be presented for payment authorization. Spending funds on unbudgeted items between meetings of the association is limited by an amount specified in the bylaws.

Guidelines for the expenditure of unbudgeted funds are as follows:

- Eight or more association meetings per year – up to \$500.00 (five hundred dollars)
- Five to seven association meetings per year – up to \$750.00 (seven-hundred-fifty dollars)
- Four or fewer association meetings per year – up to \$1000.00 (one thousand dollars)

Consult the bylaws for the specific amount allowed. The payment of these bills must be ratified at the next association meeting and recorded in the association minutes.

## 5.2.6 Request for Advance

Persons authorized to purchase items for the PTA, for which the expense will be reimbursed, may request an advance in an amount not to exceed estimated expenses.

To receive an advance for an approved expense, a Request for Advance Form (Forms 9) must be completed, approved by the president and returned to the treasurer with a Payment Authorization Form (Forms 9) attached. An Expense Statement (Forms 9) must be filed within two weeks after the completion of the activity. All receipts must be attached to the expense statement. If an advance greater than the expense is received, a refund of the difference must accompany the expense statement. If expenses exceed the amount of the advance but the total does not exceed the approved amount, reimbursement of the difference can be made. If the total exceeds the approved amount, the excess amount must be approved by the board and ratified by the association before the additional amount can be reimbursed.

## 5.2.7 Amending the Budget

If adjustments are needed, the budget can be amended by a two-thirds vote of the association.

## 5.3 Banking

All money must be deposited in accounts at a bank approved by the executive board. The association Employer Identification Number (EIN) is required on all accounts (Employer Identification Number 5.7.1; Forms 9).

If the bank issues an ATM card for an account, the use of that card **must be restricted to deposits only**. The ATM card cannot be used for cash withdrawals.

The IRS considers all funds in PTA accounts to belong to the association regardless of source. A PTA may handle only those funds over which it has full control, and the total amount must be declared as gross income to the PTA. All funds in the PTA account must have association approval for disbursement.

### 5.3.1 Records and Supplies Needed for Banking

For each bank account, record the account number, place of deposit, and elected officers authorized to sign on the account inside the front cover of the treasurer's book (Ledger Sample, Forms 9). Keep the passbook in a safe place. Ensure that the secretary records the elected officers authorized to sign on the account in the minutes of the association election meeting or whenever the executive board fills a vacant position.

All supplies listed below are legitimate PTA expenses, reimbursable upon approval of the executive board. Advise all board members of the date the books will

close so that they can submit all outstanding expenses before that date.

**Bank Deposit Book:** Obtain from bank.

**Bank Deposit Slips:** Obtain from bank.

**Checkbook:** Order from the bank, imprinted with the name of association, two signature lines, and the following wording: "Void if not cashed within 90 days" and "Two signatures required."

**Deposit Stamp:** Obtain from bank (includes "For Deposit Only," name of PTA and account number).

**File or Envelope:** Obtain for filing bills and receipts.

**Heavy-Duty Envelope, Locking Money Box or Safe:** Obtain for temporary holding of cash.

**Numbered Receipt Book:** Purchase at an office supply store.

**Portable File:** Obtain to hold treasurer's current records.

**Storage Box:** Obtain to hold treasurer's records not in current use.

**Treasurer's Book (Ledger Book):** Used to keep track of all transactions (Ledger Sample, Forms 9).

**Payment Authorization Form:** A written request for an expenditure or reimbursement (Payment Authorization, Forms 9).

### 5.3.2 Computer-Generated Financial Records

Financial records may be kept on a computer, providing PTA procedures are followed and a monthly printed record is kept in a permanent binder. Before using a computer consider the following:

- The records must be such that the next financial officer will be able to continue with the record keeping on the same computer program, a compatible computer program, or by hand.
- The PTA must purchase the financial program to be used, so future financial officers will have access to the program.
- The organization must agree on software used.
- A data binder must be used to store the ledger pages permanently.

#### 5.3.2a GUIDELINES FOR COMPUTER USE

Computer generated financial records must be stored to a backup external storage device (e.g., compact disk (CD), jumpdrive) whenever updated.

Each report generated must show the title and time period covered.

PTA financial records must be kept on an external storage device containing only PTA financial records.

If an error is discovered prior to printing a report, it may be corrected at that time.

If an error is discovered after the report/file has been printed, correct it by a journal entry adding an explanation. (If printed copies have been distributed, corrected copies with an explanation must be distributed at the next meeting.)

A hard copy of the computer register must be printed on a monthly basis and maintained in a bound book.

Maintain a checkbook register with the current balance at all times.

Electronic payments or wire transfers are not allowed. PTA bylaws require two elected officers to sign all checks.

In preparing the financial records for audit, the same procedures are followed as with records kept by hand. Printed ledgers, reports, deposit slips, bills, minutes, authorizations, and other records are submitted to the auditor, establishing a clear "audit trail" of the financial transactions of the organization.

When financial records are kept on a computer the following must be added to the permanent records of the PTA:

- An information sheet listing all financial institution or bank account names and numbers;
- An information sheet providing the name and version of the software program and type of computer operating system (Windows or Macintosh);
- Backup disk(s) of financial files.

### 5.3.3 Bank Statements

PTA bank statements should be sent to the PTA's permanent address, usually the school. The treasurer should check regularly for the bank statements. Try to use a bank that returns canceled checks with the bank statements. This will facilitate the audit process. If canceled checks are not returned, the bank must provide photocopies.

Another elected officer who does not sign checks shall open and review the bank statement prior to presentation to treasurer for reconciliation.

#### *Reconciling Bank Statements*

Reconcile the monthly bank statement and compare with the check stub/register balance promptly to ensure that bank and financial records are correct. Identify differences, note outstanding checks and determine the adjusted bank balance at the end of the month. This establishes the funds available against which checks may be written.

It is recommended, for the protection of the PTA, that the auditor or another elected officer who does not sign PTA checks also reconciles monthly bank statements. This can be done before or after the treasurer reconciles the statement.

After reconciliation, place all supporting receipts, details of the deposits, the canceled checks in numerical order and, with the duplicate deposit slips, file them with the statement. Make a notation on the check register of the last canceled check returned, indicating that the account was reconciled. Place all items on file for audit.

### 5.3.4 Cash Handling

Assign at least two PTA people to count cash. One should be a financial officer or a chairman. Do not publicize the place where money is to be counted.

Have all those involved in counting money verify the total and sign the Cash Verification Form. This form is a safeguard when volunteers are handling PTA funds (Cash Verification Form, Forms 9).

Plan for the safekeeping of money until it is deposited in the bank.

Simple procedures for counting money can keep the PTA safe and ensure accurate reporting of receipts to the membership. If money is collected when the banks are not open, make plans with the bank for a night deposit or with the school principal to use the school safe. Be sure that the amount is documented prior to depositing it in the school safe or lock box. The documented deposit should be placed in a sealed envelope signed by a school administrator and verified by two authorized PTA representatives.

Depending upon the community, a police or sheriff escort to the bank may be provided on request.

### 5.3.5 Deposits

Prepare deposit slips in duplicate, the original for the bank and the duplicate for the treasurer's records. Follow the bank's directions when recording the checks on the deposit slip. Some banks require listing the bank numbers for each check; some accept an adding machine tape of the check amounts.

Checks should be marked "For Deposit Only" with the PTA account number. A stamp with this information may be secured at the time the bank account is opened. If applicable, record in deposit book. Make duplicate deposit slip with details such as membership, bake sale, gift-wrap sale. Enter amount on check register. Roll coins as directed by the bank. Attach a copy of the deposit slip to the Cash Verification Form (Forms 9).

### 5.3.6 Checking Account

Each PTA must maintain a checking account in the name of the association. Use the PTA permanent address, usually the school. Use checks imprinted with the name of the association, two lines for the two authorized signatures, and the statements "Void if not cashed within 90 days" and "Two signatures required."

At least three elected officers, two of whom must be the president and the treasurer, shall be approved to sign checks and have their signatures on file at the bank. It is advisable that any check made payable to one of the designated signers not be signed by that person (i.e.,

signed by any two others). The authorized check signers must not be related by blood or marriage or reside in the same household. Refer to PTA bylaws for authorized check signers.

A student may be a signatory on a PTA/PTSA account, as long as he/she is an elected officer of the association and it has been noted in the minutes of the association. Contact the bank with questions about this issue.

### 5.3.6a CHECK WRITING

Credit cards or Check/ATM cards can not be used by units and councils as it violates the PTA's two signature policy. (These cards shall only be used for deposits.)

Always use a check register when writing checks. Record all checks written with the date, check number, payee, and amount. Note the purpose of the payment on the front of the check in the memo section. Do not sign blank checks. Do not pay bills with cash. Checks should be written with care, so that the amount of money cannot be altered (Check Sample, Forms 9).

### 5.3.6b OUTSTANDING CHECKS

Watch for checks that do not clear the bank within a reasonable time (about 60 days) and investigate. If an uncashed check is lost, a stop payment may be placed with the bank and a new check issued. The bank may charge for a stop payment. If, after investigation, a check still has not cleared and it is 90 days after issue, void the uncashed check and add the amount of the check to the ledger and checkbook for reconciliation. On the monthly report, note any uncashed checks as separate items and subtract or add the amount to the balance on hand.

### 5.3.6c VOIDING A CHECK

If an error is made on a check, write the word "void" across it on the check register and in the ledger. Then remove the voided check from the checkbook and file it with the financial record. Never destroy a voided check. Tear off and destroy the signature portion of the voided check if it has been signed.

### 5.3.6d STOPPING PAYMENTS

When a check has not been cashed after 90 days, contact the payee to determine why. Placing a stop payment on the check may be necessary. Inquire with the bank. The original entry was recorded under "Disbursements." Record the uncashed check in the disbursement column again and place parentheses around the amount. This reverses the original transaction and does not add to the gross receipts. Write a new check if payment is requested.

For example:

Original entry: 2/07/03	Ck # 1098
Jenny King	\$30.00

Enter a 2nd time: 5/04/03	Ck #1098
Jenny King, uncashed check	(\$30.00)

## 5.3.7 Check Request System: Payment Authorization

The payment authorization should include the following information: date, check number, payee, amount to be paid, and budget line item(s), with the signatures of the secretary and the president authorizing the payment, following association approval.

Budget approval is not authority for the expenditure of funds except as stated in the bylaws. All monies/payments must be within the approved budget and either preapproved by the association at an association meeting for release or ratified by the association at the next association meeting. To release funds for any activity, a motion must be adopted at an association meeting. "I move to release up to \$600.00 for the *fall festival*. Budget category: fall festival." Once funds are released the treasurer must report to the elected board monthly on the budget to actual with the variance on all released funds.

Neither executive board nor association approval is required to disburse funds not belonging to a unit (Funds Not Belonging to the Unit 5.2.3).

After approval by the association, the Payment Authorization Form permits the treasurer to write checks. A payment authorization, with bill, receipt, invoice, or expense statement attached, must be prepared for each check written (Payment Authorization, Forms 9). An authorization must be written and signed by the appropriate parties, once the funds have been released by the association. When the treasurer is presented with a receipt, a check may be written immediately. It is not necessary to wait until the next association meeting to reimburse monies. Do not issue blank checks. Wait until the receipt is presented, write the check for approved amount, and secure the required signatures.

An authorization may be attached to a Request for Advance Form, if the person authorized to purchase items requests an advance (Request for Advance, 5.2.6; Forms 9).

ATM cards may be used only for deposits.

If your bank does not verify a second signature received on PTA checks:

\*A PTA can vote to change to a bank that does enforce the multi-signature requirement for all PTA/PTSA checks.

or

\*A PTA can continue banking at the same bank and continue to use two signatures on the checks as outlined in their bylaws and monitor this through semi-annual audits.

Do not sign blank checks. Do not pay bills with cash.

### 5.3.7a AUTHORIZATION PROCEDURE

Member presents bills to treasurer with proof of money spent, such as an invoice marked "paid," a dated cash register receipt, or a signed expense statement with receipts attached. Treasurer presents bills at a meeting of the executive board or the association, and a motion must be made to pay them. Discussion and vote follows. The action of the executive board must be ratified at the next association meeting.

When bills are approved for payment, the secretary records the motion, listing the bills approved for payment in the minutes.

The secretary, financial secretary, or designee prepares a Payment Authorization Form for each bill and attaches the invoice or receipt. The secretary and president sign the Payment Authorization Form (Forms 9).

The Payment Authorization Form is given to the treasurer.

The treasurer prepares the check and records the check number on the Authorization for Payment.

The Payment Authorization Form is filed for review in the audit.

The treasurer obtains the signatures of two authorized signers on the check for the protection of the PTA's funds.

The treasurer distributes the check.

Follow proper procedures to guard against misappropriation of funds. The responsibility of establishing and maintaining correct procedures rests with the PTA executive board.

Members must approve all expenditures. If the board decides to spend monies on unauthorized expenditures and then presents an unapproved bill for payment or ratification, the membership may choose not to pay the bill(s). If bills are not approved or ratified by the membership, the executive board is personally liable for any PTA funds owed. If payment for a bill not approved or ratified has been made from the PTA account, the executive board must repay the funds.

### 5.3.8 Petty Cash

Units may not have Petty Cash funds. All expenditures must be by check and signed by two elected officers.

### 5.3.9 Savings Account

A savings account may be opened in the name of the PTA, to earn interest on funds not currently needed, by vote of the executive board and recorded in the executive board minutes. For protection, make a motion to deposit or transfer funds from the checking account to the savings account.

The earning of interest does not jeopardize the PTA's tax-exempt status. Earned interest becomes part of gross income. Include the amount of funds in the savings account and any activity for the period in each treasurer's report.

Invested funds should be in a federally-guaranteed and insured account.

### 5.3.9a EMERGENCY RESERVE

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

- Efficient management of funds;
- Reserve to carry on programs during the summer and fall until dues are collected; and
- Monies to finance long-term or unexpected but approved projects or programs.

As a guide, the savings account reserve should not exceed one-half of a PTA's budget for an average year.

### 5.3.10 Investments

Some PTAs earn or accumulate enough funds to cover expenses for an extended period of time. Rather than retaining a large amount of money in its checking account, a PTA may place its funds in an interest bearing checking account or may invest excess funds. Excess funds are those not needed for organizational or immediate expenses or to fulfill the unit's obligations related to distribution of membership per capita.

The PTA should investigate potential investments to determine which are safe and yield reasonable returns. The association must vote annually on which investment(s) to make and must vote on whose names shall appear on the PTA investment account and on proposed plans for the use of these funds.

Invested funds should be in a federally guaranteed and insured account.

### 5.3.11 Returned Not Sufficient Funds Checks

Tips for handling checks received by the PTA in payment for goods or services and returned from the bank for not sufficient funds (NSF):

- Call the writer of the check, explain that the check was returned by the bank and provide the reason given by the bank. Remember to state that the writer is now liable for whatever fee the bank has charged for the transaction.
- If the unit still has not received payment 10 days later, contact the check writer again to discuss the matter.
- Thirty days from the initial contact, if payment still has not been received, send the writer of the check a certified letter:
  - State in full why the money is owed to the PTA.
  - Demand payment in cash or bank issued money order plus the bank fee. Do not accept another check. (For cash issue a written receipt to the payer, signed by two individuals.)

- State in the letter that according to California Civil Code § 1719, if the unit files with the Small Claims Court, it will sue for the amount of the check plus three times that amount in damages.
- Keep a copy of the letter for the files.

There are some exceptions to the “check plus three times” rule, but the law states that if one follows these rules, one shall receive the triple damages. The judge has no discretion in this matter.

The decision to pursue a money matter in the courts should be decided by a vote of the PTA executive board. If the unit or council is incorporated, check the *Articles of Incorporation* to determine who should be involved in making such a decision. Remember, this is a confidential matter and should not be discussed outside the executive board meeting.

The court may require that the PTA provide a copy of a motion authorizing the filing of the claim and the individual authorized to represent the association.

For proper direction, rules, and procedures for filing in Small Claims Court, check with the clerk of the municipal court in the unit’s area. It may be necessary to provide the court clerk with a copy of the minutes that include the motion (resolution) designating certain officers to act for the association in court.

### 5.3.11a BOOKKEEPING PROCEDURES

When a check paid to the PTA is returned by the bank (NSF), note it in the ledger and checkbook register along with the charges levied by the bank. Treat the bank charge as a disbursement. Record the check as a returned NSF check and enter the amount of the check into the deposit column and place parentheses around the amount. This reverses the original transaction.

For instance, original entry under “Deposit” and returned check under “Deposit.”

Check #1234 Brown, 2 memberships \$20.00  
 Check #1234 Brown, Returned for NSF(\$20.00)

When funds are recovered, add the amount back into the checkbook register and the ledger. Treat this as a deposit.

For each returned check, use a separate deposit ticket for redeposit or circle amount of check redeposited, if included with other checks being deposited.

### 5.3.12 Fundraising Receipts and Expenditures

The treasurer or financial secretary shall deposit money in the bank immediately after a fundraising event. The activity chairman must ensure that the treasurer receives all revenue and receipts immediately after the completion of the activity. Two PTA people, one of whom should be a financial officer or a chairman, must count the monies received, and both should sign a Cash Verification Form (Forms 9). The people counting the money shall not be related by blood or marriage or reside in the same household. Copies of the cash verifi-

cation forms or receipts must be given to the chairman for documentation in his/her activity report. The totals must match the monies deposited for the activity.

Even if the project is a continuing one, the money must be deposited daily in the PTA’s bank account.

Never deposit any money in anyone’s personal account or in the school account. Never leave money unattended in someone’s home or in the trunk of a car (Deposits 5.3.5).

### 5.3.12a PROVIDING DOCUMENTATION TO DONORS

PTA members and contributors often assume 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. See *National PTA Quick-Reference Guide*.

State and federal law requires that tax-exempt charitable organizations provide donor with receipts or other forms of documentation of contributions for a cash donation of any amount. Failure to comply may result in denial of deductions for donors and the imposition of penalties on the organization.

Recent changes to tax laws require the donor to obtain a receipt for every cash donation regardless of the amount. A donor must have a canceled check, bank record or receipt that shows the name of the PTA to which the contribution was made, and the date and the amount of the contribution; therefore PTAs must give a receipt for every cash donation.

In-kind contributions of \$250 or more require written acknowledgement from the PTA that lists the items donated and includes the PTA’s Employer Identification Number.

Upon receiving a *quid pro quo* contribution of \$75 or more, PTAs must provide written acknowledgement that quantifies the value of the donation (cash-equivalent) and documents how the donation was received (cash, goods or services).

In all cases, be sure to thank the donor for her/his generous support (Donation Receipt, Forms 9).

#### *Quid Pro Quo Contributions*

Payments made partly as a contribution and partly for goods and services provided to the donor from the charity are known as *quid pro quo* contributions. For example, when a donor pays \$100 for a concert ticket that would normally be valued at \$40, \$60 would be tax deductible. The *quid pro quo* contribution is the total amount paid, not the deductible amount. Therefore, in this case, because the donor paid \$100, a disclosure statement must be provided.

### 5.3.13 Non-Dues Revenue

*National PTA Money Matters Quick-Reference Guide*

PTAs may need non-dues revenue to carry out the programs that members want. *E-commerce* and *affinity pro-*

grams are popular non-dues revenue sources. They work by contributing a portion of the sale of a product or service to a particular charitable cause. The amount of the contribution is usually governed by the sales or the usage of 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 also can be designated as recipients of charitable contributions whenever a customer is asked to designate a charity.

Affinity programs, such as PTA-logo credit cards, are based on the usage of the card. Each time a holder of the credit card makes a purchase using the card, a percentage of the purchase or a set fee may be received by PTA. PTAs may also receive an enrollment 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.

### 5.3.14 PTA Funds vs. School Funds

Only PTA funds shall be deposited into the PTA treasury. A PTA shall not act as a depository for funds of other organizations. School funds or funds belonging to outside groups shall not be commingled with PTA funds in any way. If a PTA sponsors a project or program in cooperation with the school, all funds shall be accounted for and separated prior to the immediate deposit of the PTA portion into the PTA bank account. All funds deposited in the PTA account become the property of the PTA, and all expenditures require a vote of the association.

**PTA funds** are private monies; **school funds** are public monies.

### 5.3.15 Commingling of Funds

A unit PTA is a nonprofit, private organization. To comply with all requirements, regulations and laws, a PTA must handle only those funds over which it has full control. All PTA monies and other assets are the property of the unit and shall be administered through its own accounts.

#### A PTA SHALL NOT

- Deposit funds from other groups or organizations in the PTA account;
- Deposit PTA funds in a personal account; or
- Deposit PTA funds in school or school district accounts.

For tax reporting and filing purposes, the IRS considers all monies deposited to the PTA account as that PTA's

gross receipts, excluding funds forwarded through channels (e.g., per capita dues).

## 5.4 The PTA Audit

All unit, council and district PTAs must conduct audits semiannually or upon resignation of the treasurer, financial secretary, any check signer, or at any time deemed necessary by the executive board.

An audit is a formal examination of the financial books and records of the financial officers of the PTA. It serves to certify that receipts and expenditures, as authorized in the minutes, are in conformity with bylaws, Standing Rules, and budget limitations. The PTA audit serves as an official examination of the financial records conducted by the auditor, appointed audit committee, or paid auditor at the times specified in the Bylaws and when there is a change in financial officers.

### 5.4.1 Audit Schedule

At the beginning of the year, the treasurer should set up the books from the perspective of an auditor. The auditor should meet with the financial officers and explain what is required to conduct an audit.

### 5.4.2 Purpose of an Audit

An audit determines the accuracy of the books, detects inconsistencies or errors, provides recommendations for corrective action, protects the financial officers, verifies that funds were sent through channels as appropriate, and assures the membership that the association's resources were managed in a businesslike manner within the regulations established for their use.

The person conducting the audit should always be impartial and not related by blood or marriage nor reside in the same household as the president or other financial officers or any chairmen handling funds.

The auditor is often a member of the budget, programs, or fundraising committees, but is never the one authorized to sign the PTA's checks. It is permissible for the PTA to hire a professional to conduct the audit.

The auditor may be an elected officer, appointed individual or committee, or a professional hired by the PTA in accordance with the procedures listed in the Bylaws. The president, treasurer, financial secretary, secretary, or committee chairmen handling funds may not audit the finances.

### 5.4.3 Preparation for an Audit

Collect all financial books, records and reports from the treasurer, including:

- A copy of the last audit report;
- Current bylaws and standing rules;
- Originals of checkbook register, whether handwritten or computer generated, and canceled checks (including voided checks);

- Originals of bank statements, bank book and deposit slips;
- Cash receipts;
- Authorizations for payment;
- Itemized statements and receipts of bills paid;
- Monthly Treasurer's Reports;
- Original treasurer's books/ledgers including back-up files (external storage device) if books are kept on a computer;
- Annual Financial Report;
- Copies of board, executive committee and association minutes, which would include an adopted budget, any amendments that were approved during the year, approval of expenditures, and ratification of payments;
- Committee reports from chairmen (e.g., fundraising, membership, etc.);
- Any other information requested by the auditor;
- Copy of PTA-required Workers' Compensation annual Payroll Report form;
- Copies of all required state and federal report forms if PTA hires employee(s);
- Copies of all required federal report forms if PTA hires independent contractor(s);
- Copies of the most recently filed IRS Form 990, if required;
- Council and district PTAs must also include copies of the State Form 199 and RRF-1.

#### 5.4.4 Audit Procedure

Audit each account separately. Check off items in red ink as they are reviewed. Do not correct errors. Ask the responsible financial officer to correct errors after presenting the report. After errors have been corrected, and the auditor is satisfied that the financial accounts are correct, draw a double line across the ledger and checkbook register where the audit concludes and sign and date using red ink, "Audited by (name) on (date)."

The auditor ensures that the association's financial records are accurate:

- Check to be sure all financial materials requested are available.
- If the PTA has more than one account, audit each account separately.
- Include bank name, bank address, type of account and the account number on each report.
- Check off items in red ink as reviewed. Make sure additions/subtractions are correct in all instances.
- Do not correct errors. Make notes as to how to correct errors and include in the report.

- Start audit with records posted after the last audit. Check to see if the amount shown on the first bank statement (adjusted for outstanding checks and deposits) corresponds to the starting balance recorded in the checkbook register, ledger, and treasurer report, and the ending balance of the last audit.
- Check to see that the ending balance of the last bank statement, checkbook register, ledger and treasurer report agree.
- Confirm reconciliation of each month's bank statement to the checkbook register by someone other than the treasurer. Make sure every check is substantiated with an authorization for payment with reason for disbursement, appropriate payee and a receipt or bill. If no authorization can be found, verify it was a transfer payment, such as council dues. Note missing checks. (Void checks are filed.)
- Check that all bank charges and interest earned are recorded in the checkbook register, ledger and treasurer reports.
- Ensure that checks (see bylaws) and authorizations are signed by approved officers.
- Reconcile each deposit slip with bank statement and checkbook entries. Ensure money was deposited promptly.
- Ensure collection process is in place for returned checks that includes reimbursement of applicable bank charges. A returned check is treated as reverse income and reimbursed bank charges are treated as reverse expenses.
- Reconcile checkbook register to the ledger. Check each month's ledger entries for error, and cross-check against checks issued and receipts posted. Cross-reference checkbook register with checks issued.
- Verify that all income and expenditures are allocated into the same categories that constitute the approved budget.
- Make certain that council, district, State and National PTA portions of the membership dues have been kept separate from other receipts and forwarded immediately.
- Make certain that the number of memberships agrees with membership chairman's report, and verify that membership monies collected correspond to membership monies forwarded.
- Ensure payment for insurance premiums.
- Make certain the money collected for a specific purpose (special projects, Founders Day, scholarship funds, council dues, etc.) has been so disbursed.
- Check association and executive board minutes to see if expenditures were authorized. No motion is required for payment of transfer funds – per capita, Founders Day freewill offering, and insurance premiums.

- Check event reports to verify receipts and expenditures.
- Check all cash receipt slips issued, and verify proper entry in ledger.
- Ensure that Cash Verification Forms (Forms 9) are being used and two people are counting money.
- If an advance has been given, ensure that advance amount matches the approved expense.
- Compare figures on monthly treasurer and annual financial reports against ledger for accuracy.
- Ensure proper tax returns have been filed, if necessary.
- Prepare copies of written report, including recommendations, for president, secretary, financial officers, and council/district. When called upon, read only the statement “The auditing committee has/I have examined the records of the treasurer of \_\_\_\_\_ PTA and find
  - them to be correct, or
  - them to be substantially correct with the following recommendations, or
  - more adequate accounting procedures are needed so that a more thorough audit report can be given, or
  - them to be incorrect.
- Verify that the PTA-required Workers’ Compensation Annual Payroll Report form has been filed through PTA channels.
- Verify that all required state and federal report forms have been filed if PTA hires employee(s) or independent contractor(s).
- Verify that all tax forms have been filed, if required.
- Council and district PTA auditors only: verify that council and district PTAs have filed the required State Forms 199 and RRF-1.

Each committee member must sign the report. If questions are raised by the membership, the president should state that a committee has been appointed to look into any problem, and that the members will report back to the association at the next meeting. The audit report is adopted by the association with the motion “I move that the audit report be adopted.”

- Ask the responsible financial officer to correct errors after presenting the report.
- After any errors have been corrected and all are satisfied that the financial accounts are correct, draw a double line across the ledger and checkbook register where the audit concludes and sign and date using red ink “Examined by (name) on (date).”

For more information about PTA audit procedures, refer to *Bylaws for Local PTA/PTSA Units*, Article VI, Section 8

## 5.4.5 Audit Report

Audit Reports are to be forwarded to the next level PTA. (See Bylaws, Duties of Officers, Auditor.)

At the completion of the audit, meet with the financial officers and president to discuss recommended corrections. When errors have been corrected by a financial officer and accounts are accurate, draw a double line in red ink where the audit concludes. Sign and date the ledger (Audit Report Form, Forms 9).

### 5.4.5a AUDIT REPORT CHECKLIST

- Prepare written report.
  - Report should include bank name and address, type of account, account number, EIN, beginning balance (ending balance from last audit), a total of all expenditures, all deposits, outstanding checks, outstanding deposits, and an ending balance (Audit Report Form, Forms 9).
- Include a statement at the bottom of the report to be read upon presentation of the report, “The audit committee has/I have examined the records of the treasurer of \_\_\_\_\_ PTA and find— them to be correct, or— them to be substantially correct with the following recommendations, or—more adequate accounting procedures are needed so that a more thorough audit report can be given, or—them to be incorrect.” Each member of the committee or the auditor should sign the report.
- Attach any recommendations to the report. List errors in arithmetic or posting. List unpaid bills and payments authorized, but not paid.
  - Present the audit report with recommendations to the executive board, and attach the report to the executive board minutes.
  - Present the audit report to the association, and read the statement given on the report (from the form).
  - Formally adopt the audit report with a motion: “I move that the audit report be adopted,” and record the action in the association minutes. Any PTA member may make a motion to adopt the audit report.
  - Attach a signed copy of the audit report to the association minutes.
  - Forward copies of adopted audit to the next level PTA.

If there are questions raised by the membership, the president should appoint a committee to look into the problems and report back to the association at the next meeting (Mismanagement of Funds/Embezzlement 5.4.7).

If assistance is needed, contact the council or district PTA. At any time during the process, the California State PTA also may be contacted for information and assistance.

---

For more information on audit procedures, see *National PTA Quick-Reference Guide*, Money Matters.

#### **5.4.6 Internal Revenue Service (IRS) Audit**

The IRS examines the records of PTAs on a random sampling basis. The notification of an IRS audit of the PTA records will include a list of items that must be made available. If a PTA letter of exemption is required, the state office will furnish a copy upon request.

Do not make any implicit, explicit, oral or written statements or accusations.

A notification of intention to audit from the IRS should not be cause for panic. All PTA financial records should be kept up-to-date, so that an audit can be conducted without a problem. If contacted for an IRS audit, notify the district and California State PTA treasurers. After the audit is completed, provide the district and California State PTA treasurers with the results.

#### **5.4.7 Mismanagement of Funds/Embezzlement**

Mismanagement of funds refers to the potential loss or misuse of PTA funds and raises questions about the integrity of the individual(s) in charge of the PTA funds. PTA funds are protected by following correct financial procedures. The PTA executive board has a fiduciary responsibility (required by the IRS of all nonprofits) to safeguard the association's assets and potentially clear the individuals who may be involved.

There are several signs of possible mismanagement: lack of receipts and/or treasurer's reports; payments made in cash rather than by check; missed meetings by financial officers; and unanswered phone calls or mail. However, these are merely signs, not proof of wrongdoing, so be discreet. Do not make any implicit, explicit, oral or written statements or accusations. Such actions could result in a lawsuit for libel or slander.

Notify the district PTA president or California State PTA vice president for leadership services and/or state treasurer and with guidance from the district PTA president, review the information, and determine the appropriate course of action. Specific PTA procedures are outlined in the California State PTA *Advanced Leadership Tools*, which is available to council and district PTAs.

Possible mismanagement/embezzlement of PTA funds is a PTA responsibility and therefore, PTA policies and procedures must be followed. The principal or other school district personnel shall not determine or take any other course of action for the PTA.

Do not make a direct accusation. Do not accept any offer of direct repayment from an individual, unless payment of the full audited amount is to be made with cash, certified check or money order. It is important to report the loss to the district PTA and insurance broker right away.

Embezzlement, the stealing of money entrusted into one's care by means of fraud for one's own use, is considered to be the same as theft under the law.

Theft in any form is a violation of the law and should be handled as a serious offense. If money is stolen from an individual's car or property, a police report should be filed immediately and contact made with the individual's insurance company to determine coverage.

---

## 5.5 General Operating Information

### 5.5.1 Contracts

Contracts are a legally enforceable agreement between two or more persons or organizations. All contracts must be approved by the PTA membership and signed by **two elected officers**, one of whom must be the president.

When entering into a contract, the 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 by \_\_\_\_\_, President and (name), officer.”

Receive the contract in writing. Understand the terms and conditions of the contract. Have the contract reviewed by legal counsel if needed. Ensure that the length of the contract is limited to the current membership year and does not encumber future boards.

Do not sign a contract that makes the PTA responsible for injury or damages.

Independent contractors must provide current certificates of insurance, which the PTA must retain in its files. Directors, teachers, or instructors hired as independent contractors must carry their own general liability insurance and Workers' Compensation Insurance.

All contracts must be approved by the association prior to being signed.

### 5.5.2 Hold Harmless Agreement

A Hold Harmless Agreement means that the signer assumes total liability for a facility while the signer is using it. Many school district Facility Use Permits include a Hold Harmless Agreement which, if signed, would mean that the PTA assumes the total liability for that facility during PTA's usage, whether the cause of an injury or accident is due to anything under the control of the PTA or not. If the school district requires the PTA to sign a Hold Harmless Agreement for use of school premises, the PTA should contact the California State PTA insurance broker. The insurance broker may then direct the signing of a Facilities Use Permit Addendum (Forms 9).

PTA is required to obtain a Hold Harmless Agreement and Evidence of Insurance from each vendor, concessionaire, or service provider who is used. Instead of providing Evidence of Insurance to each individual unit, the vendor, concessionaire, or service provider may file an annual copy of coverage with the California State PTA insurance broker.

A list of vendors, concessionaires, or service providers who have Evidence of Insurance on file with the California State PTA insurance broker is available on the insurance broker's website. (See *Insurance and Loss Prevention Guide* for website information.) These vendors, concessionaires, and service providers do not need to sign the Hold Harmless Agreement or provide a copy of their insurance, if the policy has not expired. If the date on the list has expired, call the California State PTA insurance broker.

In a Hold Harmless Agreement, the signing party assumes responsibility for all acts and all liability for any injuries that occur related to an event (Hold Harmless Agreement, Forms 9).

### 5.5.3 Bonding and Insurance

As a protection for all unit, council and district PTAs, the California State PTA has contracted for General Liability, Directors and Officers Liability, Bonding, and Workers' Compensation insurance coverage. Certain activities and events are prohibited, either because they are excluded by the insurance policy or because they are dangerous or jeopardize the safety of children and youth.

**There is no distinction** between student and adult members with the insurance broker.

Participation in the California State PTA insurance program is required for all unit, council and district PTAs. The California State PTA contracts for coverage, and districts are notified of the cost for insurance each fall. Premium costs vary, depending on statewide losses during previous years.

Insurance premiums are not refundable. The premium must be forwarded through PTA channels to be received in the California State PTA office by January 31, or a late fee of \$25 will be assessed by the California State PTA. Postmarks will not be accepted. Council and dis-

trict PTAs shall not assess additional fines or fees for late submission of insurance, per capita, or reports required by the California State PTA (1.2.3; 1.2.4).

District PTAs will notify their units annually of the current premium costs and the date premiums are due to district. Premiums are not to be sent directly to the California State PTA. The insurance term of coverage is one year, from January 5 through January 4.

Details regarding coverage and required annual payroll reporting of Workers' Compensation are furnished to PTAs through articles and inserts in *PTA in California* (the California State PTA newsletter), through service mailings, and through other direct mailings from councils, districts, and California State PTA.

In circumstances where a unit, council or district PTA is hiring part-time or full-time employees and the aggregate total cost of the employee wages is in excess of \$1000.00, the California State PTA will bill the unit, council or district PTA additional monies to help cover the cost of the increased premiums of Workers' Compensation Insurance coverage, as needed. Charges/fees will be based on the insurance rate charged by the State Fund, Workers' Compensation Insurance Provider.

- ALL PTAs will be required to pay the base rate. Base rate will cover gross wages of all persons hired up to \$1,000.00.
- PTAs that pay wages over \$1,000.00 will pay an additional premium of 5% of total gross wages (less \$1,000.00) of all persons hired to cover the increased cost of the Workers' Compensation insurance. This policy became effective January 5, 2005.

#### 5.5.3a COMPREHENSIVE GENERAL LIABILITY

Coverage with a \$1,000,000 limit covers all unit, council and district PTAs when involved in approved PTA activities. It protects all members, in case they are held legally liable for bodily injury or property damage to another person that resulted from an allowed event. This is not a medical policy, but a policy that pays because an individual is held legally liable. If someone is injured but the injury is not a result of PTA negligence, the individual should utilize his or her private medical insurance coverage.

#### 5.5.3b DIRECTORS AND OFFICERS LIABILITY

Coverage with a \$1,000,000 limit covers all unit, council and district PTA officers. It provides defense and protection if a director, officer, or member of PTA is sued for failure or alleged failure of a member to live up to the responsibilities and duties assumed as a member of the PTA.

#### 5.5.3c BONDING INSURANCE

Bonding insurance covers all unit, council and district PTAs and all persons handling funds and PTA assets. The basic bond provides \$15,000 Employee/Volunteer Theft; \$15,000 Forgery; and \$15,000 Theft, Disappearance and Destruction of money or scrip. There

is no coverage under the bond for wire transfers. There is a \$500 deductible.

Higher insurance limits can be obtained for an additional cost directly from the insurance carrier. If the unit wishes a higher limit, one may complete the form “Excess Crime Bond Application” in the *Insurance and Loss Prevention Guide*. (Higher limits are recommended for units purchasing scrip.)

Claims must be reported in a timely manner. As soon as a bond incident investigation is initiated, it must be reported to the district PTA president, who will contact the Insurance Broker.

### 5.5.3d WORKERS’ COMPENSATION INSURANCE

The California State PTA carries Workers’ Compensation insurance for all operations of the PTA in order to comply with the State of California Workers’ Compensation Law. The law requires that any organization considered to be an employer in the state must provide protection for its employees (*California Labor Code*, para. 3700). Any PTA that pays wages directly to an individual and reports said employment on the Workers’ Compensation Annual Payroll Report (Forms 9) must comply with this mandate.

The Workers’ Compensation system was designed to provide prompt and effective medical care to workers injured on the job and to provide replacement of a portion of wages lost while a worker is recovering from an injury. Workers’ Compensation insurance protects the employer against losses due to work-related accidents and illness. The California Workers’ Compensation system is a no-fault system, which means an injured worker is entitled to benefits without regard to negligence or fault. For procedures when an employee sustains an injury on the job, see Workers’ Compensation Insurance (5.6.4; Forms 9).

### 5.5.4 Insurance and Loss Prevention Guide

The *Insurance and Loss Prevention Guide* is designed to help unit, council and district PTAs select fundraising activities, sponsored programs, and events. It outlines the risks associated with planned activities. The guide is mailed to unit, council and district PTAs annually in November.

Before planning any PTA activities, consult the *Insurance and Loss Prevention Guide*.

The *Insurance and Loss Prevention Guide* provides direction on the programs and events in which a PTA may participate. It is divided into three sections: Red Light, Yellow Light and Green Light.

**Red Light** includes the prohibited activities and events that are not covered under insurance for the PTA. When a PTA sponsors or conducts an activity listed in the Red Light Section and someone is injured because of PTA negligence, the individual PTA officers could be held personally liable. Child care programs are not covered under the California State PTA comprehensive general liability insurance policy. If the unit PTA sponsors such a

program, it must purchase separate insurance for the program.

The California State PTA strongly urges unit, council and district PTAs to refrain from serving alcoholic beverages at PTA functions. PTAs may not engage in the sale of alcoholic beverages. See the Insurance and Loss Prevention Guide, Red Light Section.

Although child care programs are not covered, baby-sitting services during meetings and events when a parent is on the premises are acceptable and encouraged when following appropriate guidelines (PTA Provided Baby-Sitting Services, 5.8.6).

**Red Light** activities and events are prohibited and, if conducted, are considered to be a violation of California State PTA policies and may result in the withdrawal of a PTA’s charter.

**Yellow Light** includes the cautioned activities and events. Participation in these activities may require additional insurance coverage, waivers of liability, and certificates of insurance. PTA must strictly adhere to PTA guidelines and/or other special arrangements. PTA must meet all stipulated conditions and must consult the insurance broker prior to undertaking these activities.

**Green Light** includes the approved activities and events.

### 5.5.4a REPORTING INCIDENTS

The Incident Report Form (available in the *Insurance and Loss Prevention Guide*) must be completed by the PTA president if there is an incident. It is a confidential communication between the PTA and the California State PTA insurance broker, informing the insurance broker of the potential problem. It is not a claim; it is merely notification of an incident. The Incident Report Form is not to be completed by the injured party. However, the PTA president may ask the injured party questions that will facilitate accurate completion of the Incident Report Form. When completing the form, follow the directions in the *Insurance and Loss Prevention Guide*.

### 5.5.4b VENDORS/CONCESSIONAIRES/SERVICE PROVIDERS

Vendors, concessionaires, and service providers must have their own insurance to reduce the possibility that the PTA unit will be held liable for the activity. PTA is required to obtain a signed Hold Harmless Agreement and Evidence of Insurance from each vendor, concessionaire, or service provider who is used (Hold Harmless Agreement 5.5.2, Forms 9).

A current listing of those vendors/concessionaires/service providers who have a copy of their certificates of liability insurance coverage is available on the insurance broker’s website (See *Insurance and Loss Prevention Guide* for website information). Additional copies of the list may be obtained by contacting the California State PTA insurance broker.

### 5.5.5 Special Request for Professional Opinion

In circumstances where professional, expert advice is requested due to a unique situation in a unit, council or district PTA, the California State PTA will contact the appropriate professional provider, as needed. Charges/fees incurred will be billed to the appropriate PTA benefiting from the advice.

For questions about PTA's liability coverage, contact your district PTA. See the *Insurance and Loss Prevention Guide* for the contact telephone and website address of the insurance broker. The responsibility for interpretation of the liability policy is assumed by the insurance broker.

### 5.6 PTA as an Employer

When considering a project requiring paid personnel, carefully review the following information before making a decision. Becoming an employer is a major, ongoing commitment for a PTA and therefore is discouraged. Each PTA project is unique and the applicable state and federal regulations change periodically. The PTA may not hire a voting member of its board as an employee or independent contractor. This is considered a "conflict of interest." (See California State PTA Bylaws Article IV, Section 6)

#### 5.6.1 Employee vs. Independent Contractor

It is preferable to gift the funds to the school district directly for the services required, since the school district has experience and expertise as an employer. A financial gift must not be viewed as an on-going commitment, since each PTA association must adopt the annual budget (Gifts to Schools 5.8.1). To determine whether a person should be considered an employee or an independent contractor, the IRS has identified twenty factors that are to be used as guidelines.

An individual's desire to be one or the other is not a deciding factor. Serious consequences can occur if a person who is actually an employee is paid as an independent contractor. The unit can be held liable for the individual's taxes that should have been withheld, as well as any applicable penalties. An employer must generally withhold income taxes, withhold and pay social security and Medicare taxes, and pay unemployment taxes on wages paid to an employee. However, an employer generally does not have to withhold or pay any taxes on payments made to independent contractors.

Consider these IRS guidelines. Not every factor is applicable in every situation, and the degree of importance of each factor varies, depending on the type of work and individual circumstances.

1. **Instructions.** An employee must comply with instructions about when, where and how to work. Even if no instructions are given, the control factor is present, if the employer has the right to control how the work results are achieved.

2. **Training.** An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods and receive no training from the purchasers of their services.

3. **Integration.** An employee's services are usually integrated into the business operations, because the services are important to the success or continuation of the business. This shows that the employee is subject to direction and control.

4. **Services rendered personally.** An employee renders services personally. This shows that the employer is interested in the methods as well as the results.

5. **Hiring assistants.** An employee works for an employer who hires, supervises and pays workers. An independent contractor can hire, supervise and pay assistants under a contract that requires him or her to provide materials and labor and to be responsible only for the result.

6. **Continuing relationship.** An employee generally has a continuing relationship with an employer. A continuing relationship may exist even if work is performed at recurring although irregular intervals.

7. **Set hours of work.** An employee usually has set hours of work established by an employer. An independent contractor generally can set his or her own work hours.

8. **Full-time required.** An employee may be required to work or be available full time. This indicates control by the employer. An independent contractor can work when and for whom he or she chooses.

9. **Work done on premises.** An employee usually works on the premises of an employer or works on a route or at a location designated by an employer.

10. **Order or sequence set.** An employee may be required to perform services in the order of sequence set by an employer. This shows that the employee is subject to direction and control.

11. **Reports.** An employee may be required to submit reports to an employer. This shows that the employer maintains a degree of control.

12. **Payments.** An employee is paid by the hour, week or month. An independent contractor is usually paid by the job or on a straight commission.

13. **Expenses.** An employee's business and travel expenses are generally paid by an employer. This shows that the employee is subject to regulation and control.

14. **Tools and materials.** An employee is normally furnished with significant tools, materials, and other equipment by an employer.

15. **Investment.** An independent contractor has a significant investment in the facilities he or she uses in performing services for someone else.

16. **Profit or loss.** An independent contractor can make a profit or suffer a loss.

17. **Works for more than one person or firm.** An independent contractor generally is free to provide his or her services to two or more unrelated persons or firms at the same time.

18. **Offers service to general public.** An independent contractor makes his or her services available to the general public.

19. **Right to fire.** An employee can be fired by an employer. An independent contractor cannot be fired so long as he or she produces a result that meets the specifications of the contract.

20. **Right to quit.** An employee can quit his or her job at any time without incurring liability. An independent contractor usually agrees to complete a specific job and is responsible for its satisfactory completion or is legally obligated to make good for failure to complete it.

In questionable cases, the facts will determine whether or not there is an actual employer-employee relationship. If the PTA unit wants the IRS to determine whether a worker is an employee, file Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS District Director. The California Chamber of Commerce publishes an excellent guidebook for employers in California, which includes a chapter on the independent contractor issues. In addition, the local office of the California Employment Development Department (EDD) can be contacted for guidelines in making a determination.

### 5.6.2 Approving Projects That Require Employees

The proposed project must be approved by members at an association meeting. Record the vote in the association minutes. Ongoing projects must be approved every year. Approval must include authorization for the fundraising activities by which the project will be supported. If the project will make use of school facilities, the school principal, the school district superintendent, and the school board must approve it. The respective dates of such approval must be recorded in the minutes of the PTA association with letters of approval attached to those minutes. See the *Insurance and Loss Prevention Guide* for program criteria.

#### 5.6.2a PLANNING

Determine whether the project will involve people hired as employees of the PTA or as independent contractors of the PTA. This status will govern how the project is managed and how money is controlled.

The reporting requirements of the federal and state government vary, depending on whether the PTA employs persons as employees or independent contractors. These requirements must be fulfilled, and it is important for the PTA to be sure that they have the means to do so.

Information regarding PTA policies and procedures must be reviewed before embarking on any program or project, especially those where the PTA employs personnel.

#### 5.6.2b HIRING REQUIREMENTS

Every employee is required to complete IRS Form *W-4* and *Form I-9, Employment Eligibility Verification*, which may be obtained from the U.S. Department of Justice Immigration and Naturalization Services.

All personnel who work on a school campus, regardless of whether they are hired as an employee or an independent contractor, must be finger-printed and must undergo a background check. All personnel employed by the PTA must meet school district health screening requirements. All personnel employed by the PTA must comply with school district procedures for detecting and reporting suspected child abuse, as required by state law.

If an employee is under the age of 18, he/she must have a Work Permit from his/her local school district.

### 5.6.3 Comprehensive General Liability Insurance for Independent Contractors

Independent contractors must provide current certificates of insurance, which the PTA must retain in its files. Directors, teachers, or instructors hired as independent contractors must carry their own general liability insurance and Workers' Compensation Insurance (Bonding and Insurance 5.5.3).

### 5.6.4 Workers' Compensation Insurance

California law mandates that every employer shall establish, implement, and maintain an effective Injury and Illness Prevention Program (Operational Safety Policy for PTA Employees, Forms 9). Any PTA that pays wages directly to an individual and reports said employment on the Workers' Compensation Annual Payroll Report (Forms 9) must comply with this mandate.

Those unit, council, and district PTAs maintaining an office or employees performing at a regular place of business must post an Employee Acknowledgement Form to meet this requirement. The material must be kept current and filed as a part of the permanent record of the association. Each employee must read and sign the Employee Acknowledgement Form in duplicate. The original must be kept as a permanent record, and the copy must be sent to the California State PTA office (Employee Acknowledgement Form, Forms 9).

For questions about **Workers' Compensation** coverage for employees, contact the nearest State Compensation Insurance Fund office. Contact the council or PTA district president for further details and the location of the nearest field office

It is critical that, before planning any PTA activities, the *Insurance and Loss Prevention Guide* be consulted.

For information on Risk Management, visit [www.nonprofitrisk.org](http://www.nonprofitrisk.org) for the Non-Profit Risk Management Center.

### 5.6.4a IN CASE OF EMPLOYEE INJURY

When an employee sustains an injury on the job that requires medical attention, inform the district PTA and call the California State PTA office at 916.440.1985 to secure an *Employer's Report of Occupational Injury or Illness*.

The completed report must be returned within 24 hours for processing and referral to the insurance carrier. By law, injuries requiring medical attention must be reported within five working days. A record must be kept on the State Compensation Employee Injury Claim Form Log (Forms 9).

The employee also must be given an *Employee's Claim for Workers' Compensation Benefits* to complete within one working day of the employer's knowledge of the injury. If the injury does not require medical attention, complete the form and keep it on file, should the employee seek medical attention at a later date.

### 5.6.5 Workers' Compensation Annual Payroll Report

All PTAs must pay the base Workers' Compensation premium, which is part of the California State PTA Insurance Program, whether or not they hire employees.

Each unit, council, and district PTA must file a Workers' Compensation Annual Payroll Report no later than January 31 of each year. This report will cover the period of January 5 through January 4 of the preceding year. If no one was hired, complete all the information requested and write, "No one paid," sign and forward through channels.

Any individuals paid directly by PTA are considered employees of the PTA and must be listed by name of individual worker, type of work performed, dates worked, amount paid, and whether this person has his/her own Workers' Compensation insurance on the Workers' Compensation Annual Payroll Report (Forms 9). If the PTA does not pay the worker directly but donates the money to the school, do not list the worker.

If total payments (gross) for ALL employees are more than \$1,000, a PTA will incur an additional premium. To calculate the new premium subtract \$1000 from the total (gross) payments for all individuals paid for the period being reported, multiply the balance remaining by five percent (5%) and forward that amount along with the base premium through channels by the district PTA due date.

For example: \$2,500 total (gross) payments, less \$1,000 = \$1,500 x 5% = \$75 premium for this PTA. \$200 (Base Premium) + \$75 (5% surcharge) = \$275 (Total Premium).

PTAs can avoid paying this additional premium by not hiring or making payments to individuals. If the PTA membership votes to support a program that requires payments to individuals in any capacity, ask your school district to employ and pay that person, and gift the funds to the school district for the expense. This not only reduces the cost to support programs, it offers an addi-

tional layer of protection against potential liability and removes the PTA's responsibility for filing government-required employee reporting forms and payroll withholding. If the school district pays the individual with monies gifted from a PTA, the PTA does NOT have to report this activity on the Workers' Compensation Annual Payroll Report.

For more information on Workers' Compensation Insurance, please review Bonding and Insurance (5.5.3) and *Insurance and Loss Prevention Guide*.

### 5.6.6 Employer Tax and Withholding Requirements

If an employer-employee relationship exists, the PTA, as employer, must comply with the following:

**FICA:** The PTA must withhold from each employee's wages the proper social security and Medicare amounts, paying to the federal government that sum on behalf of each employee. As employer, PTA is required to pay a matching sum as well. The amounts that an employer must withhold from each employee and contribute are listed in the *IRS Publication 15, Circular E, Employer's Tax Guide*.

**Federal and State Income Tax:** The PTA must administer, collect, account for, and pay to the federal and state governments specified amounts of taxes that must be withheld from each employee's wages. This process requires PTA to obtain W-4 statements from each employee. (Federal Tax withholding schedules: *IRS Publication 15*. State Tax withholding schedules: *Circular E, Employer's Tax Guide*, and *California Employer's Tax Guide* are available from the California Employment Development Department.)

**SDI (State Disability Insurance):** The PTA must withhold and pay state disability insurance, including California paid Family Leave Program withholding. Rates are found in the *California Employer's Tax Guide*.

**SUI (State Unemployment Insurance) and ETT (Employment Training Tax):** The PTA must pay state unemployment insurance and employment training tax. Rates are found in the *California Employer's Tax Guide*.

Semi-weekly, monthly, or quarterly payment of withholding to the IRS and California Employment Development Department (EDD) are required. For further information, consult *IRS Publication 15, Circular E, Employer's Tax Guide, Publication 509, Tax Calendars* and the *California Employer's Tax Guide, Employer's Guide to Unemployment Insurance Code of California*, available from the California EDD.

**Form W-2:** This form must be completed by the employer and issued annually to every employee before January 31. The Form W-2 may be downloaded from [www.irs.gov](http://www.irs.gov). Each employee should complete a Request for Taxpayer Identification Number Form (Forms 9).

### 5.6.7 Filing Requirements for Employers

If the PTA is an employer, it must follow rules set up by the IRS, Social Security Administration, and the California EDD.

Employers must:

- Make timely payroll withholding deposits;
- Make quarterly federal and state payroll withholding reports within one month of the close of each payroll quarter, using *IRS Form 941* and *State Form DE-6*;
- Issue *IRS Form 1099-MISC* to all independent contractors by January 31, if the PTA pays \$600 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* is not required to be issued to corporations or to those paid less than \$600;
- Issue *IRS Form W-2* to payroll employees by January 31 for the previous calendar year;
- Report *IRS Form 1099* and *Form W-2* information to federal and state agencies as well as the Social Security Administration by February 28 for the previous calendar year, using *IRS Form 1096* (Annual Summary and Transmittal of US Information Returns); and
- Report individuals who are independent contractors to the California EDD on *State Form DE 542, Report of Independent Contractor(s)* within 20 days of making payments of or entering into a contract for \$600 or more within any calendar year.

### 5.6.8 Penalties

Failure by an employer to pay taxes due or to withhold required amounts from an employee's wages can result in substantial penalties to the employer. Refer to the current *IRS Publication 15, Circular E, Employer's Tax Guide* and the current *California Employer's Tax Guide* for detailed information regarding penalties.

Penalties may apply if the PTA:

- Does not make required deposits on time;
- Does not make deposits at an authorized financial institution; or
- Pays with the return (amounts that may be paid with a return are limited).

Penalties may apply for each whole or part month if *IRS Form 941, Employer's Quarterly Federal Tax Return* is not filed when required, disregarding any extensions of the filing due date.

The PTA may make advance Earned Income Credit (EIC) payments to employees that submit *IRS Form W-5*. If the PTA does not do this, it is subject to a penalty equal to the amount of the advance EIC payments not made.

A penalty may be imposed if the PTA fails to file (on paper or on electronic media) an Information Return (*IRS Forms W-2* and *1099-MISC*) or files with incorrect information. A PTA that fails to withhold or pay over any tax withheld is guilty of a misdemeanor and the responsible party(ies) may be imprisoned and/or fined.

### 5.6.9 Filing Requirements for Independent Contractors

Payments of \$600 or more during a calendar year made to individuals for services rendered, who are not employees, must be reported on the *IRS Form 1099-MISC*. This report is due to the IRS by February 28, for payments made during the previous calendar year. Refer to *Employee vs. Independent Contractor (5.6.1)* for assistance.

PTA must report individuals who are independent contractors to the California EDD on *Form DE 542, Report of Independent Contractor(s)*, within 20 days of making payments of or entering into a contract for \$600 or more within any calendar year.

Currently, EDD may assess a penalty of \$24 for each failure to comply with the required time frames. A penalty of \$490 per instance may be assessed for failure to report independent contractor information. To obtain *Form DE 542* visit EDD website at [www.edd.ca.gov](http://www.edd.ca.gov).

Each independent contractor should complete a Request for Taxpayer Identification Number Form (Forms 9).

## 5.7 Tax Requirements

### 5.7.1 Employer Identification Number (EIN)

PTAs may not use any individual's social security number or the **Employer Identification Number** (EIN) of another organization. No other organization or entity may use the PTA's EIN.

The EIN is listed in the *Bylaws* as well as on the *IRS Form 990/990EZ*. If no number can be found, check with the council and district PTA treasurer. The district may call the State PTA office to obtain the number or ask for further assistance. The California State PTA will contact the IRS, if necessary, to obtain the EIN.

The district PTAs, under the authority of the California State PTA, are responsible for filing *IRS Form SS-4* to obtain the EIN for new units.

**Employer Identification Number:** A number issued by the IRS, upon submission of *IRS Form SS-4*, for the identification of all tax-related business of individual associations. The EIN is also required to open a bank account.

### 5.7.2 Tax Exempt Status and Letters of Determination

PTAs in California generally are not required to pay taxes on income earned. California State PTA has secured from the Internal Revenue Service a group

(blanket) tax exemption letter under Section 501(c)(3) of the Internal Revenue Code.

Unincorporated PTAs also have received an exemption letter from the California Franchise Tax Board confirming PTA's exemption from state franchise or income tax under Section 23701d of the Revenue and Taxation Code.

Separately incorporated PTAs must secure their own California Franchise Tax Board letter of exemption.

Both the federal and state exemption letters cover unit, council and district PTAs. Copies of the letters of determination may be obtained by contacting the California State PTA office. The PTA that needs the exemption letters must contact the California State PTA office.

To retain the tax-exempt status, PTAs must be careful that fundraising does not become a primary focus. An individual unit can have an effect on the entire organization. Unit, council and district PTAs do not pay tax on income from activities that are substantially related to the purpose for which the PTA was given exempt status.

### 5.7.3 Sales Tax

When PTAs sell items but use profits exclusively to support the purpose of the organization, they are considered consumers and not the retailers of certain items that they sell (California State Board of Equalization).

Sales tax is paid at the time of purchase by units. Consequently, resale use permits are not required by units to conduct sales of those items. Note carefully that the condition for this exemption requires that the profits from sales must be used exclusively to further the organization's purposes.

Vendors do not always charge sales tax to the units for items purchased for sale at fundraisers. At times, vendors have stated that the units are never charged sales tax, or they have argued that units need a seller's permit, because they are selling merchandise to the consumer.

According to the Tax Tips for Nonprofit Organizations (available from the California State Board of Equalization website at [www.boe.ca.gov](http://www.boe.ca.gov)), units are excluded from collecting and remitting sales taxes for items sold, and have been determined to be the consumers of the items purchased. The proceeds from items sold however, must be used exclusively to further the organization's exempt purpose. This means the units must pay sales tax to vendors for such items intended for sale when they purchase the items from the vendors. The units are not considered to be sellers of items as a result of this special exclusion and, therefore, do not have to obtain sellers permits or file sales returns.

The units may have to inform the vendors of their exclusion status and insist on paying sales tax to the vendors. The units may need to adjust the vendor invoices to include sales tax and pay the adjusted amount. The units may have to consider using different vendors, if

they are unable to obtain cooperation or agreement regarding the payment of sales tax to the vendors.

If the vendor absolutely refuses to collect sales tax and no other vendor is available to satisfy the unit's requirement, sales tax for items purchased can and should be remitted by the unit to the Board of Equalization via written letter; this is not the usual action, but it is available if other actions as previously described are unsuccessful. Boards of Equalization local office locations are available from the Board of Equalization website at [www.boe.ca.gov](http://www.boe.ca.gov).

Council and district PTAs do not meet the same criteria as units and, therefore, are required to have resale use permits, obtained from the California State Board of Equalization, if they are engaged in fundraising that involves the sale of tangible items.

Because of the great diversity of fundraising activities by council and district PTAs, consult *Tax Tips for Nonprofit Organizations Publication 18, Sales and Use Tax Guide for Volunteer and Nonprofit Fundraising Organizations*, available from the California State Board of Equalization website at [www.boe.ca.gov](http://www.boe.ca.gov), to determine what may and may not be taxable.

If an out-of-state vendor does not have a resale certificate permitting him/her to do business in the state of California, then the unit must secure a one-time-only Resale Use Permit and the forms and instructions necessary to maintain records, file returns and pay use tax on gross sales from the State Board of Equalization office; contact via website at [www.boe.ca.gov](http://www.boe.ca.gov).

### 5.7.4 Federal Taxes

Although PTA is an organization that operates in the public trust, it must comply with all tax requirements as prescribed for its nonprofit status. As a result, all PTAs are required to file federal tax returns depending on their gross receipts (see below).

Unit, council and district PTAs with annual gross receipts normally more than \$25,000 and not in excess of 1 million must file *Form 990EZ* and *Schedule A*. Unit, council and district PTAs with annual gross receipts in excess of 1 million and assets over 1 million must file *Form 990* and *Schedule A*. These limits will change every year until 2011 so check the California State PTA website every year for the limits.

*Tax Tips Pamphlet No. 18, "Sales and Use Tax Guide for Volunteer and Nonprofit Fundraising Organizations."* California State Board of Equalization, 1020 N Street, Sacramento, CA 95814

PTAs will not provide tax training or offer advice on the preparation or filing of PTA tax returns. It is suggested that PTAs seek the advice of a tax professional knowledgeable about 501(c)(3) returns regarding all tax filings.

Unit, council and district PTAs with annual gross receipts normally less than \$25,000 are now required to file *Forms 990N (Electronic postcard)*.

The forms dated the year the PTA **fiscal year** begins are the correct forms to use. For example, if the current fiscal year begins July 1, 2007 and ends June 30, 2008, forms for the year 2007 should be used.

### 5.7.5 State Taxes and Government Forms

PTAs must adhere to state filing requirements.

Regardless of their asset or revenue levels, council and district PTAs are required to file the *Registration Renewal Fee Report (RRF-1)* annually with the California Attorney General's Registry of Charitable Trusts. Units are exempt from filing, unless they are incorporated.

The state charity registration number (CT#) is assigned after an organization is registered. The organization must submit the CT-1 (registration application) and the other documents/supporting materials listed on the CT-1. After the organization is registered, the CT# is assigned by the Attorney General's office. The RRF-1 cannot be processed until an organization is registered and the CT# has been assigned.

Form RRF-1 can be submitted with the CT-1 (registration application) or after the organization receives the letter confirming registration which will include the CT#. If Form RRF-1 is sent with the application, the Attorney General's office will place the CT# on the form after the registration is processed and proceed with processing the RRF-1.

Council and district PTAs with assets and revenues less than \$100,000 for the previous year will not be required to pay the \$25 filing fee. The due date for tax filing is the 15th day of the fifth month after the end of the association's fiscal year. If the fiscal year is July 1st through June 30th, tax returns must be postmarked no later than November 15th. There is no extension available for the RRF-1.

The CT-1 and RRF-1 forms and instructions are available on the Attorney General's website <http://ag.ca.gov/charities/>

District PTAs with annual gross receipts normally more than \$25,000 are required to file Form 199 with the Franchise Tax Board. The California State PTA submits a group filing of Form 199 on behalf of unit and council PTAs that are not incorporated.

Unit, council and district PTAs having unrelated business income of \$1,000 or more are required to file *Form 109* with the Franchise Tax Board.

Unit, council and district PTAs that are incorporated must file a *Statement by Domestic Nonprofit Corporation* with the California Secretary of State. A filing fee is required.

### 5.7.6 Gross Receipts

Gross receipts are the total amount of income received from all sources during the annual accounting period before subtracting any costs or expenses, not including funds not belonging to the unit (Funds not Belonging to the Unit 5.2.3).

The receipts of three immediate preceding years (including the year for which the return would be filed) are averaged to determine if tax filing is required.

An organization's gross receipts normally will not be more than \$25,000, if it has existed for:

- One year or less, and has received (or donors have pledged to give) gross receipts of \$37,500 or less during the first reporting year (for this purpose, there is no requirement to annualize the gross receipts, even if the first year is less than 12 months);
- More than one year, but less than three, and the average gross receipts received in the first two reporting years are \$30,000 or less; or
- At least three years, and the average gross receipts in the immediately preceding three years (including the year the return would be filed) are \$25,000 or less.

Always keep a copy of the signed tax forms for unit records and note the date that the forms were mailed.

All federal tax forms may be downloaded from [www.irs.gov](http://www.irs.gov)

State tax forms may be downloaded from [www.ftb.ca.gov](http://www.ftb.ca.gov)

Form RRF-1 may be downloaded from [www.ag.ca.gov/charities](http://www.ag.ca.gov/charities)

Go to [www.guidestar.org](http://www.guidestar.org) to see copies of previously filed tax forms.

### 5.7.7 Unrelated Business Income Tax

PTAs may be required to pay tax on other types of income, referred to as **unrelated business income**. Unit, council and district PTAs with annual gross receipts associated with unrelated business income of \$1,000 or more must file IRS *Form 990-T*, Franchise Tax Board *Form 109*, and report the income when filing IRS *Form 990/990EZ*.

**unrelated business income:** Income derived from activities not directly related to the purpose or function of the PTA.

Meet any of these conditions to avoid Unrelated Business Income Taxation (UBIT):

1. Sell donated merchandise
2. Use substantially all donated help
3. Make sure the activity is not a "regularly carried on trade or business"
4. Make sure it furthers the PTA's exempt purpose

### 5.7.8 Filing Due Dates

The California State PTA provides general information about tax filing requirements, including due dates, but will not provide information or guidelines to unit, council and district PTAs concerning the completion of tax returns. Council and district PTAs shall not provide information, training or guidelines to constituent PTAs concerning the completion of tax returns. For PTAs that require assistance, it is recommended that an accountant or tax professional specializing in nonprofit 501(c)(3) organizations be consulted regarding all tax filings. This is a legitimate PTA expense.

The due date for tax filing is the 15th day of the fifth month after the end of the association's fiscal year. If the **fiscal year** is July 1st through June 30th, tax returns must be postmarked no later than November 15th. If an extension is required, instructions regarding extensions of time to file are included in the filing instructions for each form.

**fiscal year:** The date set at the time an association is chartered to annually open and close its financial books and records.

### 5.7.9 Officer Responsibilities for Filing

Although the responsibility of filing lies with the treasurer whether or not a tax form is received, it is the executive board's responsibility to ensure that all forms are filed by the due date. The auditor shall verify on the Audit Report Form that all tax forms have been filed, if required.

Be sure the treasurer is not overwhelmed and understands the complexities of completing the required forms. A good bookkeeper is not necessarily comfortable with completing tax forms.

Consider hiring an outside professional, well-versed in nonprofit tax requirements, to complete the PTA tax forms. Tax filings are complex even for many professionals. No volunteer should feel stressed doing them or embarrassed not to do them. The objective is to have them done properly and on time.

Always keep a copy of the signed tax forms for the unit's records and note the date that the forms were mailed.

If a PTA that is required to file *Form 990/990EZ* is disbanded, IRS regulations require that a final *Form 990/990EZ* and an explanatory statement be filed by the

15th day of the fifth month after the change in status. The district PTA is responsible for filing.

Do not forget to sign and date the tax return. Tax forms may be signed by any elected officer.

### 5.7.10 Resources

Federal tax forms can be obtained from local libraries and post offices; by calling 800.TAX.FORM; or by downloading the forms directly from [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

State tax forms can be obtained by calling the Franchise Tax Board at 800.338.0505; writing to the Tax Forms Request Unit, P.O. Box 307, Rancho Cordova, CA 95741-0307; or downloading the forms directly from [www.ftb.ca.gov](http://www.ftb.ca.gov).

## 5.8 Financing Programs or Purchases

A PTA may elect to organize or support educational programs subject to National PTA guidelines. Such programs could range from hiring staff by gifting monies to school districts, supporting classroom field trips or supporting an academic enrichment program. All projects and programs must be voted on by the current year's membership.

Staffing, tutoring and enrichment programs must be based on the needs of the school community. Consult with the principal, the faculty, the (hired) program director and the parents. Programs worthy of PTA support may be highly structured, somewhat structured, or completely unstructured beyond the basic requirements. The program should have positive benefits for all participants.

### 5.8.1 Gifts to Schools

PTA programs promoting parent education, home and school cooperation, children's well-being, community betterment, and funding for education must have first call on PTA funds. However, when a PTA is asked to purchase or provide materials for the local school, it is necessary to follow certain guidelines so that the gift will be acceptable to both the PTA membership and the school district.

Certain gifts, such as funding for field trips, enrichment programs, teacher aides, special instructors, books, classroom supplies, or major equipment purchases, require prior approval from the PTA membership, school principal, and school district.

PTA members must approve the expenditure of all funds, including the amount of monies to be used for purchasing school equipment, prior to any purchase. This approval must come in the form of a motion and vote at a meeting of the membership and must be recorded in the association minutes of the meeting. Since PTA membership is new each year, funds cannot be committed from one year to the next.

A gift to the school should benefit the largest number of students possible. Many school districts have policies and regulations on accepting gifts. Be sure to check with

the school district before purchasing any materials for the school. This ensures that the school district will assume responsibility for the liability, maintenance and upkeep of any equipment purchased. Gifts should be in the form of a donation, presented and accepted by the school board at a school board meeting and recorded in the school board minutes.

At the first association meeting following the acceptance of the gift by the school board, a description of what was given to the school district must be noted again, and the date the school board accepted the gift must be recorded in the PTA association minutes.

When funding classroom field trips, funds should be paid directly to the school district and include a request that they be deposited into the school district general fund for the unit's school and earmarked for the payment of buses and/or admission fees. PTA members should not assume responsibility for transporting students, as PTA's liability insurance does not cover transportation in personal vehicles. PTA insurance also does not cover bus transportation.

When paying the cost of a teacher aide or special instructor, funds should be deposited with the school district, so that the employee is covered by the school district insurance. In addition, the subject matter for the enrichment program must be approved by the school district and the use of school facilities must be approved by the principal and the school district.

Major purchases such as computers, copy machines, air conditioners, and/or audiovisual equipment, as well as books and classroom and playground equipment must meet school district standards and may be required to be purchased through the school district. If possible, try to reach an agreement with the school district stating that the purchase remains at the school site to which it was originally donated and that the PTA can use the equipment for PTA purposes.

PTA funds should not be used to purchase personal gifts, equipment for staff lounges and lunchrooms or for furnishings for principals' offices. Personal gifts include gifts for baby showers, Secretary's Day, bereavements, weddings, or birthdays. If the membership determines that such items are necessary, the individual members can make personal donations to purchase the designated items. These donations should not be commingled with PTA funds.

The school district is subject to a fiduciary responsibility. If the school district accepts money or equipment that is given subject to a restriction, then the restriction must be honored or the law will impose personal liability on the officers or trustees of the school district in their individual capacities. It is possible that the law would merely require refund of the gift not used for the restricted purpose. The law does not do that automatically – there must be a complaint filed with the school district by the donor.

If the school district or any recipient is not willing to honor the restrictions on use which accompany a chari-

table contribution, then the recipient must decline to accept the gift. There is no duty of any recipient of an offered charitable gift to actually accept the gift if there is any restriction attached.

When gifting, it is suggested a Fiduciary Agreement be completed by the PTA and signed by all involved so that all parties acknowledge and agree to gift restrictions. (See *Toolkit*, Forms 9.)

If a Fiduciary Agreement is not completed by the PTA, gifts to the school, accepted by the school district, become the property of that district and can be moved or used at any school within the school district.

### 5.8.2 Staff Appreciation

The California State PTA understands the importance of staff appreciation in building a stronger home to school connection. PTA resources may be used for this type of expense; however, PTAs must maintain their nonprofit status as governed by the Internal Revenue Service Code section 501(c)(3). Within the language of the code, the IRS does permit expenses that are not directly related to the primary purpose of the PTA if the expenses are not of a significant amount. "Not of a significant amount" is defined by the IRS as an amount that does not exceed five percent (5%) of the nonprofit organization's annual budget.

Acceptable expenditures may include a staff lunch as long as the expenses follow the above guidelines and the expenses are approved by the membership. PTA monies cannot be used to purchase personal gifts for any staff or PTA member.

Five percent (5%) is the recommended limit to be used as a guideline for PTAs for expenses, which would include all areas of hospitality, not just staff appreciation. It is important to budget appropriately when considering all PTA expenditures, and all expenditures must be approved by the membership.

Personal gifts or gifts for individuals, such as PTA members or school staff, cannot be purchased with PTA funds.

### 5.8.3 Units Purchasing Computers for Schools

Technology plays an important role in the future of education. PTAs will likely be asked to help supply technological equipment and materials to the schools. The following guidelines are for PTAs' use when purchasing computers and/or other technological equipment:

All purchases should be made in consultation with the school district. PTAs should study the school district and school site computer plans before purchasing any technological equipment. In making equipment (or software) purchases, PTAs should determine how the equipment will be used to enhance the instructional program and make sure that:

- There is a comprehensive school district plan for how equipment will be used in conjunction with school curriculum;

- The equipment to be purchased falls within the school district's overall plan;
- The staff is trained to use the equipment and that there is an ongoing in-service training program to keep teachers current with technology opportunities; and
- Adequate school district funds will be allocated for appropriate software purchases.

In order to fulfill PTA's parent education responsibility, PTAs are encouraged to secure a commitment from the school principal and the school board that the computers donated may also be used by PTA for parent education programs, website development and PTA newsletters, etc., when not being used in conjunction with the regular school curriculum.

When a gift to the school is presented and accepted by the school board, it becomes the property of that district and can be moved or used in any school within the district.

#### 5.8.4 PTA and Education Foundations

An education foundation is an organization that administers funds to finance projects benefiting educational purposes. PTA may collaborate with an educational foundation on a specific program or project but must ensure that the education foundation's goals and objectives are consistent with those of PTA and that its fiscal affairs are being managed according to sound business practices.

The California State PTA believes all members of the public, through their taxes, are responsible for adequately financing public education.

PTAs often are asked to contribute funds to a local education foundation. When a foundation plans a project outside of a school district budget, a PTA can contribute funds. The PTA must have this item in their budget and approved by its membership. When the contribution is made to the foundation, the PTA also should send a letter saying these funds are to be used at the contributing school. Education foundation funds should not be funneled through a PTA treasury.

If the foundation is going to raise funds only for the project and pass them on to the school district, then the PTA should contribute directly to the school district. The item should be in the PTA's budget, approved by its membership, and when presented to the school district, PTA should send a letter saying the funds are to be used at the contributing school.

#### 5.8.5 Academic Enrichment Programs

A PTA-sponsored Academic Enrichment Program designed as an extension of the school curriculum offers students an opportunity to expand their knowledge and academic experience.

Prior to implementation of any academic enrichment program the *Insurance and Loss Prevention Guide* must be consulted to ensure compliance with sanctioned activities. For insurance purposes, an enrichment pro-

gram is intermittent in nature and does not continue on a daily basis over the duration of the school year. For any questions regarding general liability insurance, contact the California State PTA insurance broker whose number can be obtained from the *Insurance and Loss Prevention Guide*.

If a unit, council or district PTA chooses to sponsor activities that the insurance underwriter has not listed, the unit, council or district PTA must contact the California State PTA insurance broker and may have to purchase the necessary additional participant liability insurance for that activity, and the entire organization (the California State PTA and its unit, council and district PTAs) must be named as an additional insured. Please contact the California State PTA insurance broker for requirements for additional insurance. (Refer to the *Insurance and Loss Prevention Guide*.)

A special enrichment program study committee should be appointed by the PTA president to determine if a need for a specific academic program exists and to assess its potential value. A program must be acceptable not only to the PTA association but to the principal as well, therefore the committee should include the school principal, a PTA financial officer, a faculty member and other interested persons. Consideration should be given to the feasibility of the local Parks and Recreation Department providing such a program rather than the PTA.

#### 5.8.5a TOPICS FOR CONSIDERATION

The program must be academic in content with defined goals. The PTA must monitor and evaluate the program to ensure that the goals are being met.

The instructor may be a volunteer or a paid professional. Qualification guidelines must be established for the instructor, and PTA may not hire a voting member of the board as an employee for the enrichment programs.

If the instructor is to be paid, the budget must reflect this expenditure. There must be sufficient income from other sources, such as fundraisers or program fees, to meet this expenditure.

A fee may be charged. However, fees should be minimal. All interested children must be served and no child may be excluded because of inability to pay any fee charged.

The PTA treasurer may handle the bookkeeping or there may be a need for a project financial chairman, who provides written reports given at the regular meetings of the executive board and association. Checks can be signed by designated elected officers only. All procedures outlined in the *Bylaws for Local PTA/PTSA Units*, Article VI, Section 6, for the expenditure of funds must be followed.

Books must be audited semiannually. The program should be held at a time when all interested students may attend, including those on bus schedules and those residing outside the school attendance area and those

students “off-track” when the year-round school calendar is being followed.

Consideration must be given to where the program will be held and the site’s accessibility for all students.

Compliance with the Americans with Disabilities Act requires that the PTA make reasonable accommodations necessary to make the class accessible to students with disabilities. This may include determining that a private location or specialized medical training is available for the handling of the student’s personal needs.

The PTA must be responsible for defining and implementing safety and emergency procedures.

When it has been determined that an enrichment program will benefit all children, the committee shall bring its recommendations, including how the program will be operated, to the PTA executive board for approval and recording in the executive board minutes.

In order to continue the program, it must be approved each year by the association.

If the program needs approval by the school district administration or the school board, the PTA must proceed accordingly to obtain the appropriate authorization. The committee responsible for coordination of the program must make a progress report at each executive board meeting and, periodically, to the association. Approval dates must be recorded in the association minutes.

If the program is held before or after school, on or off school grounds, a signed parent consent form must be on file for each student. There must be phone access for emergency needs. The instructor must use procedures established and monitored by the PTA for checking children in and out of the program. The insurance underwriter requires there be at least two unrelated persons 18 or over in attendance at all times.

It is strongly recommended that PTA fund an academic program by giving the monies to the school district as a gift to the school, in accordance with school district policies, instead of the PTA hiring instructors. If PTA votes to hire an instructor, refer to PTA as an Employer (5.6).

To reduce risk of exposure and protect the California State PTA, the California State PTA has determined that sponsoring certain programs is not permissible for PTAs and is not to be covered under the California State PTA General Liability Insurance Policy. Refer to the *Insurance and Loss Prevention Guide*, Red Light Section for a full listing of prohibited activities.

### 5.8.6 PTA-Provided Baby-Sitting Services

These guidelines shall apply to all baby-sitters, whether paid or volunteer. Baby-sitting services are exempt from licensing by the State Department of Social Services, since such services are defined as being provided when a parent/guardian is on the premises; e.g., children being tended in the same building as the association meeting being attended by parents. Baby-sitting ser-

vices must be provided by two unrelated persons 18 or over for parents engaged in PTA-sponsored volunteer activities or parents who are attending a PTA meeting.

All baby-sitters paid by the PTA must be listed on the Workers’ Compensation Annual Payroll Report form filed by each PTA and submitted through channels to the California State PTA office no later than January 31 of each year. Treasurers must ensure that records of such payments are kept current, both for the PTA’s records and to facilitate completing the required Workers’ Compensation Annual Payroll Report (Forms 9).

Effective July 1, 1991, state law mandates that “every employer shall establish, implement and maintain an effective injury and illness prevention program.” Any PTA that pays wages directly to an individual must comply with this state law.

If baby-sitters are paid over \$100.00 in a calendar year, see IRS *Publication 937* for further information. The PTA may charge a reasonable fee for baby-sitting services.

For more information on the noncommercial policy see *Bylaws for Local PTA/PTSA Units*, Article III, a. & b.

### 5.8.6a INSURANCE REQUIREMENTS

Guidelines for baby-sitters:

That there are at least two unrelated persons 18 or over in attendance at all times.

That children be kept in a safe environment:

- If outdoors – in an enclosed playground.
- If indoors – in a room with safe, age-appropriate toys.
- Bathroom facilities should be nearby.

That the following child : adult ratios not be exceeded:

- 0 to 5 years of age, 10 children to 2 adults; 1 additional person high school age or older for 11-15 children, and so forth.
- 6 to 10 years of age, 14 children to 2 adults; 1 additional person high school age or older for 15-28 children, and so forth.

That a baby-sitter not change any diapers. The parent should be called to perform this task.

### 5.8.7 Handling Requests for Relief Assistance

PTAs are often asked to provide assistance with the coordination of relief activities when a disaster strikes or personal tragedy occurs in a community. While PTA may appear to be a logical organization to provide this coordination, PTAs are prohibited from making personal gifts to a specified family or individual. A PTA may not collect and disburse funds for the benefit of specified families or individuals. A PTA’s EIN may not be used for the establishment or maintenance of any financial account designated for the benefit of specified families or individuals. The IRS may impose penalties if these rules are not observed.

Unit, council and district PTAs may participate in community relief efforts by making a monetary donation to a relief organization recognized by the IRS as a 501(c)(3) organization. Organizations such as the American Red Cross, the Salvation Army, and United Way handle donations for relief efforts under benevolent fund procedures, which means that funds are received for disbursement to a broad class of potential recipients. These organizations may not accept funds for a specific family or individual.

In order for PTA funds to be donated, PTA financial procedures must be followed. The membership is the authorized body to approve, or ratify, the donation to another 501(c)(3) organization. The approval of the donation must appear in the minutes of a meeting of the association.

PTAs may participate in disaster relief efforts by

- Encouraging members to make personal donations to a relief organization of individual choice;
- Encouraging members to volunteer to assist at a location providing services to disaster victims;
- Providing information on local blood drive locations;
- Providing information about other relief efforts in the community;

PTAs may participate in personal tragedy relief efforts by

- Working to locate another agency or organization that may handle donated funds to benefit the affected family or individual;
- Offering to meet with other community leaders to arrange with a local bank for the establishment of a special account to handle donated funds (Cannot use PTA EIN).

## 5.9 Fundraising for PTAs

Fundraising is the method of raising money to finance PTA programs and projects. The fundraising project must support the goals of PTA and be related to the educational, charitable, and philanthropic purposes as a tax-exempt organization. When planning the year's activities, PTAs should use the 3-to-1 rule: for every one fundraising activity, there should be at least three non-fundraising programs aimed at helping parents or children or advocating for school improvements.

It should involve as many members as possible and be fun. It should not be a burden to the school staff or parent volunteers, compete with or detract from school lunch and nutrition programs, or conflict with other PTA, school, or community events. Children should never be used to sell door-to-door or exploited to raise funds. It cannot involve commercial or advertising obligations. See National PTA *Quick Reference Guides*, Money Matters which prescribes the ethics of fundraising.

### 3-to-1 Rule:

For every one fundraising activity, there should be at least three non-fundraising projects aimed at helping parents or children, or advocating for school improvements.

"Children should never be used to sell door-to-door or exploited to raise funds."

The fundraising project must have the approval of the membership in advance of the event and the vote must be recorded in the minutes. Projects must have a specific purpose. The project, if it is an ongoing activity or program, must be approved each year by the association membership.

### 5.9.1 Protecting PTA Tax Exemption

PTAs are exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. To retain the tax-exempt status, PTAs must pay attention that fundraising does not become its primary focus. All PTAs function under the exempt status of the California State PTA and the National PTA. An individual unit can have an affect on the entire organization. Disregarding the prohibition against substantial commercial activities could result in having to pay tax or a tax penalty and/or loss of tax-exempt status by the IRS.

Most PTA fundraising activities are exempt from federal income taxes, because a majority of the work performed at the unit level is conducted by volunteers and they sell donated merchandise.

### 5.9.2 Local Requirements for Fundraising

Become familiar with state and local requirements for fundraising. These include the school district policy for use of school grounds, equipment, food services; the local permits for solicitation; municipal regulations for public gatherings – fire, curfew, traffic, food sales, health and safety; and regulations governing tax-reporting requirements.

### 5.9.3 Standards for PTA Fundraising

#### 5.9.3a FUNDRAISING COMMITTEE RESPONSIBILITIES

PTA fundraising activities are carried out by a committee whose chairman is an appointed or elected member of the executive board.

The major responsibility of the fundraising committee is to raise the amount needed to meet the proposed unit budget and to work cooperatively with the PTA president and treasurer in accounting for receipts and disbursements for the activity. The committee may also plan specific fundraising events and activities.

#### 5.9.3b COMMITTEE PROCEDURES

Fundraising events must be approved in advance by the executive board and association. Approval should be recorded in the minutes. Recruit enough volunteers to conduct the project. Assign each volunteer specific tasks and develop a work schedule. Solicit donated goods

**certificate of insurance:** Document issued by the insurance broker proving that an insurance policy covering general liability is in force.

and services. Clear the dates with the school and reserve needed facilities and equipment.

Make firm arrangements with vendors. Obtain all necessary permits. Be sure vendor is fully covered by his own liability insurance and Workers' Compensation. Have vendor sign a Hold Harmless Agreement (Forms 9) and obtain a copy of the vendor's **certificate of insurance**.

### 5.9.3c FUNDRAISING INVENTORY MANAGEMENT

Many PTAs fundraise by ordering a product from a specific vendor. When the product arrives at a school site, the PTA must maintain product inventory. The PTA executive board must ensure that inventory records are maintained and recorded following all PTA financial procedures. PTA membership approval is needed for each fundraiser before ordering product. Any agreement between the PTA and vendor is a form of a contract which must be honored. Carefully document items ordered. Treat inventory like cash. Just like a cash verification form, have two people count product items upon receipt, reconcile against the order form, packing slip and invoice, and sign an inventory summary sheet. If there is a discrepancy, contact the vendor immediately. Pay all invoices promptly. Store inventory in a secure lockable location. Track all sales in detail. Document when items sold are picked up or delivered to customers. If you have a customer complaint, handle it promptly and refund monies if necessary. Periodically count inventory to ensure accuracy. Retain all records for auditor. Write a committee report at the end of the fundraiser documenting the details of the fundraiser. Contact district PTA immediately if there are any problems.

### 5.9.4 Noncommercial Policy

The noncommercial policy requires that the name "PTA" or the names of PTA officers not be used in conjunction with the commercial activities of other organizations, including, but not limited to, the promotion of their goods and services.

Continuing or repeat projects produced in cooperation with a commercial business may be seen as PTA endorsement of that business, as may the use of the name of PTA along with the business name in promotions. The organization or members in their official capacities shall not be used to endorse or promote a commercial entity or engage in activities not related to the promotion of the Purposes of the PTA.

- Do not make a qualitative judgment of the sponsor's products or services.
- Do not include comparative language or language that implies good quality in the acknowledgment.
- Do not permit the sponsor to write the acknowledgment of thanks.

### Follow PTA's Noncommercial Policy

1. Do not make a qualitative judgement on the sponsor's products or services.
2. Do not include comparative language or language that implies good quality in the acknowledgement.
3. Do not permit the sponsor to write the acknowledgement of thanks.
4. Do not ask PTA members or the public to buy the products or services of the sponsor.
5. Do not advertise a product or service.
6. Do not endorse a product or service.

For more information on the noncommercial policy, see *Bylaws for Local PTA/PTSA Units*, Article III, a & b.

- Do not ask members or the public to buy the products or services of the sponsor.
- Do not advertise a product or service.
- Do not endorse a product or service.

### 5.9.4a SPONSORSHIP VS. ENDORSEMENT

The law permits a nonprofit organization to receive corporate sponsorship income tax free if the sponsorship is linked to a specific event that is held once per year. It is acceptable for PTA to receive payments structured as **royalties** which is a percentage of gross sales or to enter into sponsorship agreements with businesses, including e-commerce businesses. Under new regulations, it is acceptable for PTAs to agree to an exclusive sponsorship. An exclusive agreement is one which prohibits competitors of the sponsor from selling at the event. The portion of the payment which reflects the exclusion element is taxable.

For the payment to qualify there must be no arrangement or expectation that the business will receive any substantial return benefit for its payment. The PTA may not enter into a partnership with a business. **Partnership** implies sharing in the profit and loss of the business and would result in unrelated business income and tax liability.

The PTA should acknowledge publicly the royalties or sponsorship. The acknowledgement of thanks can list the corporate sponsor's name, logo, address, telephone number, and products.

**royalty:** percentage of gross sales

Treat inventory like cash!

**partnership:** percentage of net profit

*PTA May*

Hang a banner on the school campus with permission of the school principal per district policy.

---

Hang a banner where the event is being held after a Facilities Use Permit (1.3.4a; Forms 9) is approved.

Place an acknowledgement in the event program book.

Announce to the audience the event sponsors.

Acknowledge the sponsorship of the particular event in the PTA newsletter or school newsletter, if school district policy permits.

Distribute samples of the sponsor's products at the sponsored event (if school district policy permits) or if a Facilities Use Permit (1.3.4a; Forms 9) allows sponsored product distribution.

The PTA may provide a hypertext link from the PTA's website to the sponsor's website. PTA must be cautious in how this link is established. It is possible that the existence of a link might cause the sponsorship payment to be considered as unrelated business income, particularly if the link is in the form of a moving banner. A link would more than likely be seen by the IRS as retaining the passive character associated with corporate sponsorship, while a moving banner is more likely to be considered advertising. The duration of the link should correspond to the terms of the contract with the sponsor.

If PTA provides a Web link to an e-commerce business, a disclaimer must be included on the PTA website. For example:

"PTA does not endorse, warrant or recommend any of these products. PTA will receive a small percentage of every sale. If you decide to purchase any products, we thank you."

An e-commerce business should be seen as a fundraising company acting as an intermediary or buffer between retailers and consumers.

While the PTA obviously would put some effort into promoting the use of electronic shopping, in order to do so without risk, the following conditions must apply:

- Use of the program must be entirely at the discretion of the user;
- Unit cannot have control whether or not anyone will use the site;
- Unit cannot have control whether or not they are entitled to any of the proceeds; and
- Unit cannot release member information to a third party.

A variety of e-commerce retailers, also known as charity malls, are donating a portion of purchases made through their sites in exchange for the goodwill the charity can generate. The charity mall allows customers to use the charity mall's home page as a portal for shopping at any number of participating stores. For each online purchase, the PTA would receive a percentage of the sale. Working with the e-commerce business in this way, the PTA is less likely to be characterized as conducting a business, and instead, is simply receiving royalties.

Each fundraising opportunity must be evaluated individually.

### *Businesses Should*

Understand PTA policies and procedures, especially in relation to the noncommercial, nonsectarian, and non-partisan policies;

Not violate PTA policies, positions, and goals;

Exclude all websites that sell or feature firearms, tobacco, liquor, or adult content material;

Have a written policy that supports education opportunities;

Offer benefits to PTA;

Encourage participation in PTA;

Protect the privacy and security of users:

- Prohibit framing, the possibility that a third party is monitoring the transaction, when users are interacting with merchants;
- Have privacy seals from the Better Business Bureau and Trust; and
- Require individuals to provide only minimal information, such as name and e-mail address;

Not require mandatory registration or membership in order to participate in the program;

Ensure that program interface is clear, functional, and easy to use;

Structure payments to the PTA as royalties;

Specifically identify the unit as the separate and distinct entity receiving the royalties, rather than just listing the school site;

Provide a complete accounting for determining share of royalties on a monthly basis;

Require a minimal amount of effort from the PTA in promotional activities;

Be seen as a fundraising company acting as an intermediary between retailers and consumers.

Note: Purchases made through e-commerce generally will not result in tax-deductible charitable contributions, unless the purchaser can demonstrate that the amount paid for the item exceeded its fair market value and that the excess payment was intended to be a gift to the PTA.

### **5.9.5 Selecting Appropriate Fundraising Activities**

When considering and carrying out large fundraisers, keep the following concerns in mind:

- Is the fundraising project related to PTAs educational, charitable and philanthropic purposes as a tax-exempt organization?

- Does the project violate PTA's noncommercial policy?

### 5.9.5a SAFEGUARDS FOR CONDUCTING FUNDRAISING PROJECTS

To protect the PTA and its volunteers against loss, theft and mismanagement of funds, the following procedures must be followed:

1. Ensure that the proceeds of the project are designated for a specific purpose that meets the Purposes of the PTA.
2. Read all contracts carefully.
3. Ensure that the contract is signed by two elected officers of the PTA, one of whom must be the president, after the membership has voted to conduct the project.
4. Follow the financial procedures required by the California State PTA bonding insurance program.
5. Ensure that money is always counted by at least two PTA board members in a secure location.
6. Plan for the safe-keeping of money until it is deposited in the bank.
7. Follow correct financial procedures:
  - Deposit receipts promptly.
  - Keep accurate, current records.
  - Provide treasurer with a written report.
  - Use the Payment Authorization Form (Forms 9).
  - Pay bills by check (not cash), after a vote of the association.
  - File IRS *Form 990/990EZ* when gross receipts for all PTA income for the year are over \$25,000.

### 5.9.5b ALCOHOL AND PTA EVENTS

**Selling Alcohol** – according to the California Business and Professions Code, Section 25608, “Every person who possesses, consumes, sells, gives, or delivers to any other person, any alcoholic beverage in or on any public schoolhouse or any of the grounds thereof, is guilty of a misdemeanor.” PTAs may not sell alcoholic beverages under any circumstance.

In accordance with the California State PTA insurance program, PTAs may not engage in the sale of alcoholic beverages. Many PTAs hold annual silent auctions and dinners as fundraisers, at which bottles and/or cases of wine are donated for use as auction items. These donated bottles and/or cases of wine may be used as auction items provided the auction is held at a non-schoolsite location and the contents are not decanted during the event or on the premises. PTAs may auction donated alcoholic beverages but may not sell alcoholic beverages under any circumstance.

**Serving of Alcohol at PTA Events** – The California State PTA strongly urges its unit, council, and district PTAs to refrain from serving alcoholic beverages at PTA functions. If alcoholic beverages are served at a PTA function, the PTA may not serve them. Any alcoholic beverages must be provided and served by a licensed establishment or catering company that has the appropriate permits and insurance. When a PTA is planning an event that will include alcoholic beverages, the PTA may not collect for the cost of the alcoholic beverages through ticket sales. This cost must be paid separately to the licensed establishment or catering company with the valid permits and insurance.

Under no circumstances may PTA funds be used to purchase alcoholic beverages or bottles of alcohol. Remember, the purpose of the PTA is to work on behalf of all children and speak for “*everychild. onevoice.*”

If the unit has any further questions regarding this subject, please do not hesitate to contact the California State PTA insurance broker or contact your district PTA.

California Education Code Chapter 8, Article 2, Section 82580: It is unlawful to offer or sell any controlled substance, alcoholic beverage or intoxicant on school premises.

### 5.9.5c CHOOSING A FUNDRAISING COMPANY

Evaluate and research several fundraising companies. Determine the best value for the PTA in working with a specific fundraising company. Invite several companies to give presentations in order to compare several aspects of each program. Do not select a company based on one criterion, such as percentage of profit.

Determine the quality of the product. Higher quality items will generate more sales and enhance the reputation of PTA. Determine what services are offered to make the fundraising effort as trouble-free as possible.

- Is shipping an additional cost?
- Is there a reduced cost based on volume purchased?
- Who is responsible for developing fundraiser flyers?
- Who is responsible for packaging individual orders?
- Are products guaranteed?

Determine the experience, professionalism, and reputation of the company within the community. Ask how long the company has been in business, whether the company is a member of the Association of Fundraisers and Direct Sellers ([www.afrds.com](http://www.afrds.com)), and for two to three references. If a company will not provide references, it is an indication not to use its services. When provided, contact references and ask about their experience with the company and whether they recommend using it.

Determine what safety measures or policies the company offers. Review samples of the company's letters, videos, flyers, and other promotional materials that indicate safety is assured.

Determine the company's ability to meet the PTA's goals. The retail price of the product should represent a fair market value for its goods and be reasonably priced. The PTA should be able to make a fair profit. Ask whether the company can demonstrate a history of success, placing the burden of proof on the company to convince the PTA that their goal will be met. Do not pay in full for products until the complete order is delivered. If a deposit is requested, it should be a token amount of the total order.

Verify the company carries liability insurance. The *Insurance and Loss Prevention Guide* provides a list of Concessionaire/Vendors/Service Providers who have filed the appropriate evidence of insurance with the California State PTA Insurance Broker. Because a vendor is listed with insurance *DOES NOT* mean that all activities he/she might offer are approved. The red, yellow and green pages must be observed. Refer to *Insurance and Loss Prevention Guide* for additional information.

#### **5.9.5d OPERATION OF BINGO GAMES FOR CHARITABLE PURPOSES**

Bingo is a game of chance that must comply with regulations of all local authorities, including school district and city and local governments. Consult with county council and/or city attorney to determine local code and ordinances. When authorized, PTA, as an organization that falls within §23701d of the Revenue and Taxation Code (charitable organization and tax-exempt), may receive a license to operate a bingo game provided that all provisions of *California State Penal Code §326.5* are met.

A copy of the current *Penal Code §326.5* that pertains to bingo is included as a part of these guidelines. It is important to keep updated on legislative changes to this Code. Since its inclusion in the *California State Penal Code in 1975*, amendments were added in 1977, 1979, 1980 and 1981.

PTAs undertaking bingo must adhere to all provisions of the *California State Penal Code §326.5*. Violation of any provision is a misdemeanor, and certain subdivisions carry an additional fine not to exceed \$10,000. Emphasis is given to the following points as contained in the *California State Penal Code §326.5*:

The PTA may not join with another organization in the operation of bingo. Only the organization authorized to conduct a bingo game shall operate such a game, or participate in the promotion, supervision, or any other phase of such game. No individual, corporation, partnership or other legal entity except the organization authorized to conduct a bingo game shall hold a financial interest in the conduct of such bingo game.

#### *Financial Procedures*

Lease the property from the school district for the specific purpose of operation of bingo games.

Have the school district donate the use of the property to the PTA for the performance of the purposes for which the PTA is organized.

Prohibit minors from participating in any bingo game.

Ensure that the bingo chairman is a member of the PTA's executive board.

Keep all profits derived from a bingo game in a separate bank account utilizing the PTA Employer Identification Number (EIN).

Ensure that the authorized check signers (elected officers only) comply with the bylaws.

Count money with at least two PTA board members in a secure location.

Do not keep funds at committee members' homes.

Maintain accurate, current records.

Provide treasurer with a written report of financial procedures.

Ensure that profits are not commingled with any other fund or account.

Ensure that profits are used only for charitable purposes, such as PTA programs and projects, which exclude PTA organizational expenses. (Bingo games are subject to State of California audits.)

Operate and staff games by members of the unit PTA.

Do not use proceeds to pay salaries or wages of game operators.

Bingo proceeds are considered to be part of the gross receipts of the unit (Gross Receipts 5.7.6). They must be accounted for in the semi-annual audit, the budget and all financial reports to the executive board and association. If someone other than the treasurer is responsible for reporting, a financial report must be made at each executive board and association meeting. The proceeds also must be considered when determining the necessity for Federal and Unrelated Business Income Tax reporting.

#### **5.9.5e LEGAL RAFFLES FOR PTAs**

Forms and information on how to conduct a legal raffle can be obtained by going to the California Attorney General's website. (See [www.ag.ca.gov/charities/raffles.htm](http://www.ag.ca.gov/charities/raffles.htm) Section 320.5 Gambling: Charitable Raffles.)

A completed registration form and registration fee must be submitted by September 1 of each year (September 1 through August 31) during which a raffle is expected to be conducted. A separate Nonprofit Raffle Report must be completed for each raffle conducted during a reporting year (September 1 through August 31). Reports are

**raffles:** See [www.ag.ca.gov/charities/raffles.htm](http://www.ag.ca.gov/charities/raffles.htm)

*California State Penal Code Section 326.5* regulates the operation of bingo games.

due on or before September 1 (California Penal Code section 320.5).

Raffles may include but are not limited to 50/50, raffles, donation drawings, ducky derby and cow chip bingo.

#### 5.9.5f SCRIP PROGRAMS

Scrip is a coupon that may be redeemed in lieu of using cash at the store that issued the scrip. Scrip is purchased, usually from grocery stores, in large amounts for a discount off the face value. The PTA then sells the scrip at the full value, raising funds for the unit. When purchased directly, scrip is redeemable by anyone and, therefore, is as subject to loss or theft as cash.

Scrip can be purchased by the unit either directly from the store, or via the electronic scrip process. Mandatory registration or membership must not be required in order to participate in the program.

The basic bonding insurance provided as part of the California State PTA insurance program may not be sufficient for PTAs that sell large amounts of scrip. Higher limits are available for those who have a need. Please refer to the *Insurance and Loss Prevention Guide*.

Inform purchasers that scrip is not tax deductible, since the full value is received when paying for items at the issuing store, just as if they paid with cash.

Ensure the Scrip Committee follows correct financial practices.

Work directly with the store(s) and purchase the scrip with a PTA check signed by two authorized elected officers.

Keep an accurate record of scrip inventory and all sales.

Provide a written report to the treasurer with deposit receipts attached, to be placed on file for audit.

Use a stamp to mark front of checks received in payment for scrip, "Scrip Purchase—Not Tax Deductible."

Make arrangements for safe-keeping of scrip between sales.

Do not keep scrip at committee member's private residence or in a car trunk.

Renting a safe deposit box at a bank is recommended for large amounts of scrip.

If unsold scrip or money cannot be deposited in the bank immediately, establish advance arrangements with the principal to use the school safe. It is recommended the PTA purchase a small safe or lock box to place inside the school safe.

Prior to placing unsold scrip or money in the school safe, two PTA executive board members must count it. Document the amount and have the documentation signed by the PTA executive board members. The principal may require that a school representative verify the documentation.

Conduct sales of scrip in a safe, protected location.

Provide interested customers with a name and phone number of a person who can be contacted for information about the sale.

Never use children as couriers.

Do not sell scrip in parking lots or at ball games.

Maintain control of the program to ensure that all scrip sales are accurately reported.

Receive a monthly accounting of scrip purchases from the electronic scrip company.

The following considerations must be addressed regarding the terms of any contract for an electronic-operated scrip program.

- Are there hidden costs (e.g., charges for monthly statements, charges for telephone orders, point-of-sale charges, transaction fees, or charges for promotional materials)?
- What percent of profit does the PTA actually receive?
- Who is responsible for the replacement of the scrip if it is lost in the mail?
- Who is responsible for recovery of monies if a purchaser's check is returned for insufficient funds? PTAs could incur substantial losses if it is their responsibility to recover such funds.

#### Finance

A business or individual may not use the PTA's Internal Revenue Service Employer Identification Number (EIN). Any requirement in the contract for the PTA's Internal Revenue Service EIN must be deleted.

Prior to entering into a contract on behalf of a PTA, remember:

- The membership must approve the project;
- The president must have authorization from the executive board/committee to negotiate a contract;
- All contracts must be received in writing;
- The terms and conditions of the contract must be understood, reviewed by legal counsel if needed, and agreed to by the executive board/committee;
- The contract must be renewed annually, be limited to the term of the participating officers, and not encumber future boards, and
- The PTA agrees to comply with the terms and conditions of the contract and to pay the stated sum.

The fact that the activity is not a financial success or that the PTA has insufficient funds to meet its obligation has no effect on the responsibility assumed. Remember, if there are any questions about the terms or conditions of the contract, the proper time to seek legal advice is before the contract is signed (Contracts 5.5.1).

---

## 5.9.6 Obtaining Grants

Grants are specific funds given to an organization to perform specific functions. Unit, council and district PTAs may apply for grants in order to fund many of their projects and programs. Businesses, foundations and corporations give grants to causes they consider worthwhile. When applying for grants, PTAs may want to stress the points that public schools produce future employees, and that donations or gifts are tax deductible, as PTA is a 501(c)(3) organization. Organizations like the American Cancer Society, March of Dimes, Kiwanis, and Lions Clubs will make funds available for projects that fulfill their goals, such as programs addressing child abuse or substance abuse prevention.

The project for which a PTA is seeking grant funds must be one that promotes the Purposes of the PTA, is relevant to the PTA's goals, and has been approved by a vote of the membership. PTA members must be committed to following through with the stated goals of the program. The project should be one that will not commit the participation of succeeding PTA boards.

If the PTA is serious about seeking grants, find someone with expertise in writing grant proposals. The local school district may have a qualified staff member. Seek the guidance of people who are knowledgeable about the intricacies of writing proposals.

The first step is to gather information about possible sources of funding. These include the federal and state governments, private foundations, community foundations, private individuals, and public sector funds such as United Way. Unit, council, and district PTAs may apply for grants in order to fund many of their projects and programs.

### 5.9.6a GRANT WRITING

A grant writing chairman can be appointed by the president to coordinate PTA grant writing efforts. When a PTA is interested in applying for outside funds to help implement a PTA project, a committee should be appointed by the president to look for sources of funding and to prepare the proposal.

### 5.9.6b GRANT REQUEST PROCESS

Contact the grant source in writing with a brief letter of intent explaining the project.

Request the grant specifications from the donor and follow them carefully.

Find out who is responsible for reviewing grants and send the proposal to that person.

Follow up with a phone call if the donor has not responded within six to eight weeks.

Seek a personal meeting to explain the PTA's proposal further. Be open to questions. Be succinct. If the proposal is not funded, ask why.

Recommend revisions for future proposals.

Accept the final decision graciously. Always properly acknowledge the donor's generosity when the request is funded.

### 5.9.6c PROPOSALS

When writing the proposal, provide detailed information about the proposed project. Most grant proposals have a distinct format, but the information sought by donors is often the same:

- An introduction that describes the PTA organization and its purpose;
- An overview of the project and its specific goals;
- A statement that defines the problem the project seeks to solve;
- Statistics that substantiate problem identification;
- The target population;
- The project's value to PTA and to the school community;
- The proposed outcomes of the project;
- An explanation of the activities the grant will fund;
- A timeline for completion of the project;
- A description of how the project will be evaluated; and
- A proposed project budget that includes both expenses and in-kind services.

The grant writing chairman or committee should maintain a file of completed applications, individuals who are resources, and possible sources of funds to assist future committees. If the grant is awarded, the grant writing chairman is responsible for complying with the donor's reporting requirements, including providing the unit's IRS Employer Identification Number (EIN). A PTA may furnish a donor with an EIN if requested.

The treasurer must track all expenditures carefully; this information is a requirement in all grant donor reports. Keep the association aware of the progress of the grant application process, and use the reports submitted to the donor to inform the association of the project's implementation progress.

All action taken on grant applications or project implementation must be recorded in the PTA minutes.

## 5.10 Financial Procedures for the Internet

When purchasing goods and material over the Internet, PTA members must take care when choosing the method of payment. PTAs should only use online vendors who provide the option of billing the unit directly for the goods. Since PTA units are not allowed to have credit cards, individual members who choose to use their personal credit card should use extreme caution,

as they may be held liable for any purchase not appropriately authorized.

These guidelines must be followed for any purchases over the Internet using **vendor optional billing; (Where the vendor bills the PTA directly.)**

1. The item(s) must be for the purpose of an approved activity, and/or the item(s) have been individually approved by the membership. Approval must be obtained prior to purchase.
2. **Before committing to the purchase**, a copy of the order must be printed and signed (authorized) by two executive board members, one of whom is the president. The shipping & handling costs and any taxes should be included on this form. If S&H and taxes are not indicated, a note should explain their absence and to expect additional cost upon final confirmation of the order.
3. The signed order with original board signatures shall be attached to an Internet Authorization Form (Forms, Chapter 9) and filed for processing. Upon verification that the purchase has been properly authorized, the individual requesting the Internet purchase may then complete the Internet order. (By today's standards most online vendors have the capability for users to shop over a period of time before committing to the purchase. This will allow for the printing of the order before the order is filled.)
4. After the order has been committed to the vendor, a final copy of the order shall be given to the Committee Chair or Treasurer. This final copy should be compared to the original order submitted for accuracy, and should include any final shipping & handling and taxes for which the unit may be liable. All final documents shall be submitted to the Treasurer for payment when the invoice arrives.
5. NOTE: Individuals committing to Internet purchases may be held liable for any Internet purchases not appropriately authorized, or in excess of the budgeted amount.

These guidelines must be followed when making any purchase over the Internet when using a **personal credit card**:

1. The item(s) must be for the purpose of an approved activity, or the items(s) have been individually approved by the membership.
2. An Expense Reimbursement Form (Forms, Chapter 9) with receipt attached shall be submitted for processing.

This Procedure is for Reimbursement Only. Unit PTA Credit Cards are NOT Allowed for any reason.

**Fundraising:** A fundraiser that uses the Internet for order or sales of product where PTA will receive a percentage of the sales needs the same approvals that all fund raisers require. Section 5.9.3 Standards for Fundraising in the *Toolkit* must be followed.

Online payment collection systems (payschool, paypal etc) are an approved method of collecting revenue. This account must be limited to the collection of funds only. No expenses may be paid from this type of account. A separate bank account must be established to restrict Internet access into the general checking account. An authorization to transfer funds from must be used to transfer funds from the Internet account into the general checking. All revenue must be accounted for and reported in the monthly treasurers reports. This account will require a separate semi annual audit.



**PLEASE REMOVE THIS PAGE  
AND REPLACE WITH COMMUNICATIONS TAB**

**PLEASE REMOVE THIS PAGE  
AND REPLACE WITH COMMUNICATIONS TAB**