GUIDELINES FOR CEC TREASURERS

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INTRODUCTION

Congratulations on your election to the office of treasurer! This handbook is designed to be a valuable resource to you whether you are a new treasurer or an “old hand”. These guidelines are intended to be used as supplemental information to CEC’s Guidelines for Units on Legal Issues: A Primer. In order to have a successful relationship, it is vital to understand the following:

“...units are unaware of their obligations as separate legal entities. ‘Hence, they fail to take necessary or prudent steps with respect to incorporation, liability insurance, tax-exempt status and other matters which they may believe are managed by the national association but which are not.’

The granting of a charter permits a unit to be affiliated with and use the name of the Council for Exceptional Children. But the official ‘duties’ and ‘privileges’ of CEC units clearly establish the independent status of the individual unit, with sole responsibility for its own activities. Thus each new CEC unit is a separate legal entity which must not only observe all charter requirements, but must also perform all legal obligations incumbent on any self-governing organization.”

Your role, as the CEC unit/division treasurer, is critical. Your responsibilities and duties must be carried out in a timely and fiscally-sound manner to ensure the continued successful operation of your organization and its programs.

To assist you in this role, this handbook has been designed as a “how to” guide. Although it covers many of the topics and issues relevant to handling unit/division funds, it will not go into great detail since methods of budgeting and bookkeeping vary from one unit/division to another. If you are not familiar with budgeting and bookkeeping for organizations, your local bookstore or library will have basic texts on these subjects. If you have access to a computer, there are a number of excellent financial programs available that can greatly simplify your record keeping and reporting.

The “companion” handbook to this one is the Guidelines for Units on Legal Issues: a Primer. The Primer covers the following topics:

- Tax Exemption
- Incorporation
- Employer Identification Number
- Tax Returns
- Liability and Bonding
- Lobbying
- Legal Issues for CEC Units in Canada

Although some of these topics will be addressed in this handbook, please refer to the Primer for a more complete discussion.
ROLES AND RESPONSIBILITIES

In the relationship between CEC and its affiliates, there are certain roles and responsibilities that each group has related to the finances:

CEC’s role:

- Process membership applications and renewals; invoice as needed;
- Process journal subscription orders, renewals, and single copy sales; invoice or refund as needed;
- Process orders for division products sold via the CEC catalog; invoice or refund as needed;
- Provide monthly financial reports;
- Provide monthly membership statistical reports;
- Provide other costs reports as requested.

Treasurer’s role:

As an officer of your organization, you have a fiduciary responsibility to your members to follow prudent and reasonable business practices. It is vital that at the beginning of your term, you have a transition meeting with the previous treasurer. Most unit/division require that the treasurer turnover all books, records, and account information to the new treasurer within 15 days of the expiration of their term in office. It is important that you review the materials you receive with your predecessor to ensure that you understand the records that have been turned over to you, especially in those instances where your record keeping and/or reporting methods differ from your predecessor. Should you need copies of previous financial reports or other materials, please contact the CEC Senior Accountant.

- Process payments for expenses as approved by the president;
- Keep an accurate account of all monies paid into the organization;
- Keep an accurate account of all monies paid out by the organization;
- Serve as chair of the Finance Committee;
- Ensure that compliance is maintained with both IRS requirements and CEC’s requirements:
  - The 990 must be filed accurately and timely
  - Monitor income to ensure that it is earned as part of your organization’s mission
  - There should not be any excess lobbying or political activity
  - The organization must not operate for one’s personal benefit
- Prepare and submit an annual budget for approval by the Executive Committee and at the annual business meeting;
- Prepare an annual report of the financial status of the division to the Executive Committee and at the annual business meeting;
- Transfer all records to the new treasurer within 15 days of completion of term of office;
• Perform other duties as assigned by the Executive Committee;

The treasurer may also be required to:
• Open and maintain a checking account on behalf of the division;
• Present options to the Executive Committee for investment of reserve funds;
• Assist conference coordinators with handling and reporting of conference income.
ACCOUNTING TERMS

**ACCRUAL BASIS:** Method of accounting where income and expenses are recognized when the obligations are incurred (made), independent of when the cash is received or paid. Income is recorded when it is earned and expenses are recorded when they are committed or incurred. This presents the most accurate picture of the overall financial situation of an organization. (CEC is on an accrual basis system of accounting.)

**ASSETS:** Resources; what we own: cash, investments, furniture and equipment, prepaid expenses, buildings, automobiles, etc.

**AUDIT:** An extensive review by independent outside auditors to gather persuasive evidence supporting the fairness, consistency and conformity of financial statements.

**AUDITED FINANCIAL STATEMENTS:** Internally prepared financial statements that are examined by independent outside Certified Public Accountants for fairness, consistency and conformity with generally accepted accounting principles.

**BALANCE SHEET:** The principle financial report showing financial status as of a given point in time.

**CASH:** Checking, savings, petty cash—readily accessible funds.

**CASH BASIS:** Method of accounting where sales and expenses are recognized when the cash flows in and out.

**CHANGE IN NET ASSETS:** Balance remaining after adjustments have been deducted from gross revenue.

**CUSTODIAL ACCOUNT:** Recording of transactions authorized by others without any classification or control of the transaction. Similar to a bank receiving funds and disbursing funds that are under someone else’s control.

**DEFERRED REVENUE (UNEARNED REVENUE):** Funds received in advance for a service you will provide in the future. Until service is provided, you are “liable” to refund.

**EQUITY (NET ASSETS):** Everything an organization owns minus everything it owes.

**EXPENSE:** Goods and services bought and used in the operation of the organization, e.g., salaries, benefits, telephone, postage, printing, rent, insurance.

**FISCAL YEAR:** The 12-month period determined by the appropriate governing body for which a specified budget and set of bookkeeping records are established and maintained. (CEC’s fiscal year is January 1-December 31.)

**GROSS REVENUE (INCOME):** Total revenue received before any adjustments.
INVESTMENTS: Assets earning non-operations revenue.

LIABILITIES: Obligations; what we owe to others: accounts payable, notes payable, mortgages, deferred revenue.

LIQUIDITY: The ability of an organization to come up with the funds necessary to pay its current obligations.

OVERHEAD: All costs (expenses) that cannot economically be assigned directly to a product or service.

RESTRICTED NET ASSETS: Donations or “set asides” for specific uses, designed by donor or Board action (e.g., scholarship funds).

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS: Results of financial activities over a period of time.
PREPARING A BUDGET

What is Budgeting?

Budgeting aids the management process in three major areas: planning, coordinating, and controlling.

Planning: A budget is a written plan of financial operations for a future period. It states an organization’s intentions.

Coordinating: A budget provides a means by which various activity managers can coordinate planned future activities with the planned future activities of other units. A budget is agreed to by those individuals involved in the implementation process.

Controlling: A budget provides a responsibility structure for all managers authorized to spend funds. Budgeting allows activities managers to make the majority of decisions while ensuring that the decisions are consistent with the organization’s goals. The budget preparation process, the budget itself, and the timely analysis of actual operating results in light of budgeted forecasts, are all tools by which officers can control the decentralized decisions of activity managers. Budgeting requires the cooperation of all individuals authorized to spend funds. A budget is a commitment. Any changes should require approval.

The responsibility for the budget needs to be in the hands of those responsible for the “activity” and it is essential that authority and responsibility be clearly defined. The individual responsible for budget performance must actively participate in the budget development.

A budget is more than just “dollars.” It’s a written plan of your activities, what you will accomplish over the next year, and a way to help “keep score.”

Establishing Objectives

BEFORE the budgeting cycle can begin, the unit/division should set its goals and direction. What are the members’ needs, and are we meeting them? Should we re-think our current publications program? What projects do we want to undertake next year? Are we as efficient as we could be? What are others doing that impact us? What are the internal and external factors affecting our unit/division? What resources are/aren’t available to us? In short, analyze the division’s market conditions, project sales, growth and market share and project return on sales and investments (break-even analysis).

Long-term goals serve two important purposes—the first is communication. The adoption of clearly stated goals insures that officers (and members) understand in general terms where your division is headed and how their efforts relate. Second, they give a measuring stick for future assessments of the unit/divisions long-term accomplishments. Long-term goals must be general in nature but specific enough to clearly measure actual results against them.
Short-term goals are more specific and detailed than long-term goals. They provide a step-by-step set of plans toward achieving long-term goals and the basis for beginning the budgeting cycle.

**Evaluating Programs**

Every activity must be measured against the long- and short-term goals of the unit/division. This examination should be performed by the officers or the budget/finance committee.

**Building the Budget**

Once the long- and short-term goals of the unit/division have been established, it is the responsibility of activity managers (i.e., officers and committee chairs) to construct the budget for their activity. No single individual should be responsible for the entire budget.

Individuals responsible for preparing budgets should receive at least the following to help them in their preparations:

1. A written copy of the unit/division’s long- and short-term goals.
2. A listing of all major unit/division activities.
3. Detailed instructions on budget preparation.
4. A budget preparation time schedule (deadline).
5. Requirements for monitoring and analyzing actual operating results and authorizing revised budget projections.
6. A copy of the current year’s budget and previous year’s budget and actual revenue and expenses.

The activity manager should now define the objectives, determine strategy, and in detail outline the plan to implement the activity, listing assumptions. Using the detailed plan, the activity manager needs to assign a dollar cost to each component and group these costs into the budget format. A sample budget worksheet is included in this section.

**Budget Variances and Revision**

A budget is not something to be done once a year and then set on the shelf to collect dust until next year (e.g., the next convention). Budgeting is a year-round process. Actual operating results need to be compared against budgeted projections by activity and in total. Variances result from volume variances, efficiency variances, and/or faulty projections. The cause of variances should be determined as soon as possible.
Procedures for budget revisions should be in place. Mid-year revisions and adjustments should take place as necessary.

**Cash Budget**

A cash budget is essential to ensure fluctuations never reduce cash balances to zero. Cash budget is not a measure of profitability—it is a forecast of projected cash receipts and cash disbursements.

**Cost Pricing Budget (Break-Even Analysis)**

A cost pricing budget is used to determine the profitability of a specific product, activity, or function. It assists in determining whether or not the activity should be undertaken, or continued, or adjusted, and should include all costs associated with the activity, including development costs and overhead.
REPORTS, STATEMENTS, AND FINANCIAL RECORDS PROVIDED BY CEC

Summary of Reports Provided by CEC to its State/Provincial Units and Divisions

- Statistical Reports
  - Membership
- Membership Roster

Statistical Reports

The **Membership Report** is a monthly report of unit/division membership. This report is posted monthly online in the State/Provincial Unit and Division Leadership Community. The membership report provides an analysis of division membership recruitment and retention.

Membership Roster

A membership roster – a list of unit/division members – is provided by the 16th of each month. A set of four spreadsheets showing as of the end of this past month. Below are the monthly reports:

1. Current members - expiration dates in the future
2. Renewals - payments occurred in the just-completed, prior month
3. New and rejoin members - payments occurred in the just-completed, prior month
4. Lapsed (i.e., expired and not renewed) - paid-through was in the just-completed, prior month

Each spreadsheet is a comma-delimited, plain text file and should be saved as an Excel 97-2003 Workbook (.xls) or Excel Workbook.

Note: If one of the last three spreadsheets above is empty or is missing, and the above count is zero, then no transactions occurred in the just-completed, prior month.

The rosters are usually sent to the president, executive director, vice-president, president-elect and membership chair unless we are instructed otherwise.

Unit Rebates Provided by CEC to its State/Provincial Units

Unit rebates are calculated based on the rolling membership payments in a full calendar year at $8 per fully-paid membership. For example, if an individual becomes a member in November 2014 and is on an installment payment plan, with the first payment in November, and then the following 2 payments in the next year; the state unit will receive 1/3rd of their share in the April 2015 payment, and then the remaining 2/3rds of their share in the April 2016 payments.

Additionally, units will receive payments only once per year; generally by April 1st of the following year.

CEC needs to have their annual audit completed prior to releasing payments.
Summary of Reports Provided by CEC to its Divisions

CEC provides the following finance-related reports to its divisions:

- Financial Report

Financial Report

Each month, the division president, treasurer, and executive secretary/director will receive a Financial Report for the division. This report includes all division transactions posted to CEC’s general ledger. The Financial Report shows:

- Beginning balance: The beginning balance in your account. Should be the same as ending balance in prior month report.
- Revenue: Includes monthly summary and year-to-date revenue figures received for support, dues, subscriptions, publications, and other sources.
- Expenses: Includes monthly summary and year-to-date expense figures for fees, supplies, postage, travel, and other functional expenses by natural account.
- Ending balance: The ending balance is derived by adding to the beginning balance net revenue received for the month and subtracting expenses and transfers incurred during the month.

This report should be checked against your books, and any income or expenditures not in your books should be recorded and/or reconciled.
COMPLETING YOUR TAX RETURN

CEC Headquarters does not file the U. S. Corporation Income Tax Return on behalf of any of its units. This responsibility resides with unit officers acting on behalf of their individual units. It is extremely important for unit officers to be aware of the tax filing requirements that apply to the circumstances of their units and act accordingly. The individual unit will be held liable for all taxes and penalties associated with filing, late filing, and non-filing of tax returns.

CEC units are not tax exempt unless they have applied for and received tax exempt status. CEC's tax exempt status (501(c)(3)) does NOT cover its units.

Please refer to the Guidelines for Units on Legal Issues: A Primer for more detailed information about tax exempt status.

Filing Requirements after Tax-Exempt Status Has Been Secured

Unless specifically exempted, all tax-exempt organizations must annually file IRS Form 990. This is an “informational” return that must be filed by the 15th day of the fifth month following the end of the organization's tax year. The "specific exception" to annual filing of Form 990 for CEC units is as follows: "Exempt organizations without unrelated trade or business income whose gross receipts normally are less than $25,000 per year" are not required to file a Form 990.*

Unrelated Business Income Tax (UBIT)

Many tax-exempt organizations, CEC included, carry on activities that are "unrelated" or "not substantially related" to the performance of the organization's exempt purpose or function. These activities may produce unrelated business taxable income on which the organization must pay a tax.

The UBIT has been added to association law and practice so as to eliminate unfair competition by placing nonprofit organizations on the same tax basis as non-exempt businesses in areas of direct competition.

For clarification purposes it should be understood that non-taxable or exempt categories of income include dues, dividends and interest, annuities and royalties, income from conventions/conferences and exhibits, income from "research" [contracts and grants] done for federal, state, or local governments, proceeds from the sale of goods or services (e.g., publications) produced in the course of the organization's exempt function, and proceeds from work performed by volunteers without compensation or if the income is derived from the sale of merchandise received by the organization as a contribution. Taxable or non-exempt categories of income include journal advertising income, income derived from the sale of mail lists (unless the sale or exchange was with another 501(c)(3) organization), and other retail operations that an organization may set up where the products are not substantially related to the tax-exempt purpose of the association such as benefit programs.
Any organization exempt under 501(c)(3) must file a Form 990-T by the 15th day of the fifth month after the organization's year-end if it had gross income of $1,000 or more from an unrelated business activity.

**Filing Requirements for Units that do not have Tax-Exempt Status**

All CEC units, whether incorporated or unincorporated, are required to file corporate income tax returns on an annual basis. This requirement holds true regardless of the magnitude of the unit's income and expense. For smaller CEC units, this is not difficult and can be completed with a minimum expenditure of time. Its importance is much greater than its complexity.

The procedure for this filing requires the unit to secure IRS Form 1120 (U.S. Corporation Income Tax Return) and to complete it with all appropriate information by the 15th day of the third month following the close of the fiscal year (i.e., by March 15th of each year). Late payment of the tax on any taxable income could result in a penalty of 5% a month of the net tax due, up to 25%. Additional penalties may also apply.
AUDITS, COMPILATIONS, AND REVIEWS

Need for an Audit

In many jurisdictions, nonprofit organizations that solicit contributions from the public are subject to governmental regulation and must furnish, to a regulatory agency, reports on their activities. Such reports frequently include financial statements and independent auditors’ reports on the statements. Also, many nonprofit organizations receive grants for conducting activities, are compensated for costs incurred in programs, or share with other nonprofit organizations in fund-raising activities. Specific reporting requirements are often imposed in connection with these activities, and in many cases an audit is required. In addition, even when an audit is not required by a regulatory or fund-raising agency or by a grantor, nonprofit organizations often engage independent auditors to audit and report on their financial statements in order to provide additional assurance to the users of the financial statements. Nonprofit organizations also may engage accountants to compile or review their financial statements.

Compilations, Reviews, and Audits

A compilation or review is substantially less than a full audit. The auditor will not perform such tests necessary to express an opinion on the financial statement, and will rely more on management’s representations. Since the audit work in a review or compilation is less, the fees are substantially less.

You should discuss the need for an audit with your accountant to determine what is best for your division.

What CEC’s Audit Means to You as a Unit

CEC hires an independent CPA to audit our internally prepared financial statements. What does this mean? It means they examine our records in order to determine the fairness, consistency, and conformity of our financial statements. How do they do this? Several ways: confirming balances with outside sources (our banks, our vendors, our customers, and others); by randomly testing transactions for proper classification, authorization, and backup support (i.e., invoices); by randomly testing our system of internal controls; by testing dues and subscription income; analytical reviews; verifying physical inventory; and whatever other means they deem necessary in order to reach an opinion on our financial statements.

What benefit does this have to you as a unified division of CEC? It means you can rely on CEC’s financial system to properly record division transactions. It’s similar to a bank audit. Your specific account may or may not be examined by the auditors, but a large enough sample of all transactions is selected by the auditors for them to base an opinion on the overall fairness of our financial statements.

What this means to you is that our accounting system and our internal control structure is strong enough for our auditors to give CEC a clean opinion. Our system properly records transactions. Our external audit includes a review of our internal controls and any weaknesses are required to
be brought to the Board’s attention through what is referred to as a “Management Letter.”

A Management Letter is a required written report to the Board. It discusses any significant internal control weaknesses the auditors notice during the course of the audit and their recommended solution to eliminate those weaknesses. It may also contain anything else the auditors believe may be of interest to management.

All CEC employees who routinely handle cash (checks) are bonded. Insurance is maintained on all individuals who can authorize cash disbursements. The individuals recording cash receipts and those preparing cash disbursements do not prepare the bank reconciliations. Those preparing cash disbursements and bank reconciliations have no authority to sign checks. Two bonded individuals signatures are required for a check to be issued. CEC’s internal control procedures go on and on and on.

In summary, CEC’s annual audit and internal control system ensure the reliability of CEC’s financial records and safeguard the assets of CEC and its division’s custodial accounts.