

Legacy Advisor

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LABOR ORGANIZATIONS

Bonding Coverage



Eric C. Baertsch, CPA

It's a fact – fraud and embezzlement in the workplace are on the rise. Especially in today's economic climate where there may be more motivation, opportunity or justification, organizations need to be aware that there are significant risks of fraud, including theft.

Offering protection from crime, dishonesty, embezzlement, forgery, and such acts is a type of insurance referred to as "bonding." For labor organizations, every union covered by the Labor-Management Reporting and Disclosure Act of 1959 (LMRDA) is subject to bonding requirements for certain officers and employees.

Any person who "handles" union funds or property must be bonded for at least 10% of the funds handled during the union's preceding fiscal year up to a maximum of \$500,000. A person handling funds not only includes someone with physical access to cash but also any officer or employee who has the authority to sign checks and make electronic funds transfers on the union's accounts.

Depending on your organization's assets and revenues the bonding calculation could be complex; however, a very simple way to compute bonding is as follows:

(liquid assets + total cash receipts) x 10% = required bonding coverage

Liquid assets are assets that are quickly and easily negotiable such as cash, stocks, bonds, accounts and notes receivable. Property of a relatively permanent nature, such as land, buildings, furniture, and fixtures is not a liquid asset.

The LMRDA prohibits any person who is inadequately bonded from handling labor organization funds or property. Depending on your organization's liquid assets and receipts, adequate coverage may lapse for several months or longer, which is a violation of the LMRDA. For example, if your organization is bonded for \$200,000, and last year's annual receipts were \$1,500,000 and liquid assets were \$500,000, then your bonding is at the minimum required level. However, if due to a merger, your receipts increase by \$100,000 per month halfway

continued on page 4

Legacy & Labor News

We are very pleased to announce that effective January 1, 2010, Eileen E. Brassil, CPA will become a partner of Legacy Professionals LLP. Eileen provides services to labor organizations, employee benefit plans and other nonprofits. Eileen is also a frequent educational speaker and author. She serves as the chair of the Firm's Accounting and Auditing (A&A) Committee. The Committee is responsible for keeping up on current developments in the areas of accounting principles and auditing standards and for developing policies and procedures for the Firm in that respect.

As a reminder, Form LM-30 is due by March 31, 2010, if you, your spouse or minor child directly or indirectly received anything of value from or entered into a transaction with certain businesses or employers. Insubstantial payments and gifts with an aggregate value of \$250 or less do not need to be reported.

Please visit our website for this year's Tax Releases and our annual Rates & Limits publication. The releases are typically posted as they are finalized during the last week of the year or the first week of the new year. The Rates & Limits laminated release is being mailed. If you need additional copies, please send your request to info@legacypas.com.

In addition to hundreds of labor organizations, our Firm provides audit and tax services to employee benefit plans (including 403(b)s), trade and professional associations, charitable organizations, villages, municipalities, school districts, commercial entities, and other types of organizations. Contact Marketing Director Julie Tucek at 312-384-4292 or jtucek@legacypas.com if you would like to discuss any opportunities. We always appreciate your referrals.

The partners and staff of Legacy Professionals LLP wish you a happy, healthy and safe holiday season. We thank you for your continued support of Legacy.

This issue was edited by Eric C. Baertsch, CPA. Eric can be reached at ebaertsch@legacypas.com or at 952-841-3950.

On the Inside...

Personal Use of Union Owned Automobiles	2
Increased FDIC Coverage Extended	2
2010 Rates	2
Record Retention Guidelines	3

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Personal Use of Union Owned Automobiles



Chad A. Fennell

It's the time of year when we receive many questions about the taxability of the personal use of employer provided automobiles. The IRS has provided the following general guidance:

Personal Use of Employer Provided Vehicles

One of the most common fringe benefits provided to employees is use of a company owned or leased vehicle. The personal use of an employer provided vehicle is a fringe benefit and, generally, fringe benefits are taxable unless specifically excluded by law. As such, taxable fringe benefits are subject

to employment taxes and are includable in the employee's Form W-2, Wage and Tax Statement.

If an employer provides a vehicle for an employee's use, the amount excludable as a working condition fringe is the amount that would be allowable as a deductible business expense if the employee paid for its use. Employees must substantiate their business use through adequate documentation to qualify as an excludable working condition fringe.

The general way to determine the value of a fringe benefit is to determine the fair market value of that benefit. The fair market value is the price an employee would incur to buy or lease the benefit in an arm's length transaction. There are special valuation rules an employer can use to determine the value of an employer provided vehicle:

The Vehicle Cents-Per-Miles Rule: The employer multiplies the miles the employee drove for personal use by the standard rate;

The Commuting Valuation Rule: The employer multiplies the number of times the employee used the vehicle for commuting times \$1.50 if the employer meets all the requirements for using this method; or

The Automobile Lease Value Rule: The employer uses the annual lease value to determine the value of the employee's personal use of the vehicle.

There are specific requirements that must be met to use these special valuation rules. For example, the employer must provide the employee with a vehicle for commuting for bona fide non compensatory business reasons to use the commuting valuation rule.

Information on the taxation of automobiles, the automobile valuation rules and the treatment of fringe benefits in general is in the IRS's *Publication 15-B, Employer's Tax Guide to Fringe Benefits*. In addition, you can find our firm's Annual Tax Release on automobile rules posted on our website. Let us know if you have any questions.

By Chad A. Fennell, Manager, Minnesota office
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Increased FDIC Coverage Extended

Last year, amid turmoil in the financial markets, the Federal Deposit Insurance Corporation (FDIC) temporarily increased the level of insurance to \$250,000 per depositor. The FDIC recently extended this limit increase through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor.

To ensure an orderly phase out, the FDIC also extended the Transaction Account Guarantee (TAG) program, but for only six additional months. Under the TAG program, the FDIC guarantees all funds without limit held in noninterest-bearing transaction accounts. Each participating bank, however, will have the opportunity to opt out of the extended program. To find out if your non-interest bearing transaction accounts are covered through June 30, 2014, call 1-877-ASK-FDIC.

2010 Rates

The Internal Revenue Service has just released the standard mileage rates to be used in computing deductible costs of operating a passenger automobile in 2010. The new rates for business, medical and moving are slightly lower than last year. The new rates for business use have changed from \$.55 per mile to \$.50 per mile. The medical and moving rate per mile has decreased from \$.24 to \$.165. And finally, the rate for charitable use is staying the same at \$.14 per mile.

Compiled by Maria C. Solis, CPA, Partner, Chicago office, msolis@legacypas.com. Maria is responsible for compiling our Rates & Limits and Annual Tax Releases.

Record Retention Guidelines



Eileen E. Brassil, CPA

What do you keep and for how long? Do you save everything and anything “just in case”? For labor organizations, looking for guidance on this question can get confusing. Where the Labor Management Reporting and Disclosure Act of 1959 (LMRDA) requires that all records supporting a Form LM filing be kept for five years, the IRS has its own stipulations. The IRS has indicated that tax-exempt organizations must keep records for federal tax purposes for as long as they may be needed to document evidence of compliance with provisions of the Internal Revenue Code (generally, when the statute of limitations has run or three years after

a return is due or filed.) In fact, IRS Form 990 now includes a question about whether or not your organization has a written document retention and destruction policy. Many organizations are also accountable to a special regulatory agency, and many other government agencies, as well as many states, have their own record retention requirements that do not always agree with the federal requirements. Furthermore, some parent bodies have their own record retention recommendations based on internal audit requirements.

Although we recommend that you consult with your legal counsel and your parent body regarding your precise record retention guidelines, we have developed the following general guidance based on requirements of various regulatory authorities and best practices:

Permanent Records

- CPA audit reports
- Board of Trustees, Executive Board and general membership meeting minutes
- Bylaws, articles of incorporation, and charter
- Cancelled checks for important payments, e.g., purchases of property, special contracts, etc. (checks should be filed with the papers pertaining to the underlying transaction)
- Correspondence (important legal and other matters only)
- Deeds, mortgages, as well as contracts and leases still in effect
- Fixed asset records and depreciation schedules
- General ledgers and year-end trial balances
- Insurance records, current accident reports, claims, policies, etc.
- Tax returns and related worksheets
- Union agreements

Seven Years

- Accident reports and claims (settled cases)
- Accounts payable ledgers and schedules
- Accounts receivable ledgers and schedules
- Bank statements
- Bank reconciliations
- Cancelled checks (see exception under Permanent Records)
- Contracts and leases (expired)
- Expense analyses and expense distribution schedules
- Invoices from vendors
- Payroll records and summaries, including payments to pensioners (Forms W-2, 1099, 941 and 940)
- Personnel records after termination
- Subsidiary ledgers to the general ledger and trial balances
- Vouchers and supporting documentation for payments to vendors, employees, etc. (including allowances and reimbursement of employees, officers, etc., for travel and entertainment expenses)
- Any electronic documents, including recordkeeping software, used to complete, read and file your annual report

Three Years

- Employment applications
- General correspondence
- Insurance policies – expired
- Internal audit reports
- Miscellaneous other internal reports
- Petty cash vouchers
- Routine correspondence with customers or vendors
- Duplicate deposit slips
- Purchase orders

Lastly, all election records, including membership and eligibility lists, copies of nomination and election notices, voting instructions, all return envelopes, marked, challenged, and unused ballots, and tally sheets must be preserved for one year by the election official designated in the constitution and bylaws or, if none is designated, by the union secretary.

In comparing various guidelines, if there was an inconsistency, we placed the item in the more conservative category.

For more information, go to <http://www.olms.dol.gov> or contact the Department of Labor at the DOL Help Line, 866-487-2365. You can also access the IRS' Compliance Guide for Tax-Exempt Organizations (other than 501(c)(3) public charities), at <http://www.irs.gov/pub/irs-pdf/p4221nc.pdf>. As always, please let us know if you have any questions or need clarification on any of these categories.

*Revised and edited by Eileen E. Brassil, CPA, Partner
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Bonding Coverage continued from page 1

through the year, resulting in year-end receipts of \$2,100,000 and liquid assets of \$500,000, the required bonding would then be \$260,000. If your organization waits several months after the year end to determine the bonding, then you may be in violation of the LMRDA for several months.

If your organization is audited by Legacy Professionals LLP, a bonding calculation is typically offered as part of our service for your organization. If you know that your organization is very close to the minimum required bonding or that your receipts and/or liquid assets increased during the

year, please contact us to assist you in computing a bonding calculation as soon as possible so that any necessary increase in coverage can be obtained.

Many national and international unions provide bonding for their affiliates at a reasonable cost; however your rate of coverage must be computed correctly to assure that you are sufficiently bonded. Please let us know if you have any questions.

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