OLMS COMPLIANCE TIP

Reporting Investments on the Form LM-2

The Office of Labor-Management Standards (OLMS) enforces certain provisions of the Labor-Management Reporting and Disclosure Act (LMRDA), including reporting and disclosure requirements for labor unions, their officers and employees, employers, labor relations consultants, and surety companies. The LMRDA also requires, in part, that unions meet basic standards of fiscal responsibility. In particular, the LMRDA requires unions to file annual financial reports, such as the Form LM-2 Labor Organization Annual Report, filed by labor organizations with $250,000 or more in total annual receipts. In reviewing submitted Form LM-2 reports, OLMS has noticed frequent errors made involving the proper reporting of investments, reinvestments, interest, dividends, and related assets and disbursements. The purpose of this Compliance Tip is to help union officials and accountants who prepare Form LM-2 properly report concerning these assets and disbursements.

Reporting of Investments

The total book value (lower of cost or market value) of investments at the start and end of the reporting period of all investments other than cash and U.S. Treasury securities must be reported in Item 26 (Investments). U.S. Treasury securities, marketable securities, and other investments are reported in Schedule 3 (Sale of Investments), Schedule 4 (Purchase of Investments), and Schedule 5 (Investments) of the Form LM-2.

Schedule 3 (Sale of Investments and Fixed Assets) and Schedule 4 (Purchase of Investments and Fixed Assets)

Schedules 3 and 4 require labor organizations to report details of a sale/redemption or purchase by the labor organization of U.S. Treasury securities, marketable securities, other investments, and fixed assets (collectively referred to as "investments"). In addition, the labor organization must report the total amount from a sale/redemption or purchase of investments that was promptly reinvested (i.e., "rolled over") into other investments during the reporting period on the "Less Reinvestments" line.

Schedule 5 (Investments Other Than U.S. Treasury Securities)

Schedule 5 requires labor organizations to report details of all the labor organization's investments at the end of the reporting period, other than U.S. Treasury securities. Additionally, the labor organization must include in Item 22 (Cash) all cash on deposits, which includes funds in banks, credit unions, and other financial institutions, such as savings accounts, certificates of deposit (CDs), or money market accounts. When reporting brokerage accounts (i.e., accounts in which the union does not have direct access), such as brokered certificates of deposit and brokered money market funds, the union must report them as investments in Schedule 5. In such cases, the funds in those accounts are not readily available to the union and act more like an investment than cash. Generally, such brokered accounts are not directly FDIC insured.

Additionally, cash account components of investment brokerage accounts that contain the receipts from investment sales and are used to purchase additional investments should be reported following the same principles. A cash account component in which 1) an outside broker or financial professional has authorization to exclusively manage the portfolio and its investment components, 2) the broker may move funds in and out of the account without knowledge of the union, and 3) is solely used in the short-term to transfer funds between investments, must be reported as an investment on the Form LM-2. A cash account component used for any other purpose, such as gathering interest or allowing the union to withdraw funds directly from the account, must be reported as cash on the Form LM-2.

Reinvestments

A common reporting deficiency is the failure to report reinvestments on Schedules 3 (Sale of Investments and Fixed Assets) and 4 (Purchase of Investments and Fixed Assets). Failing to report reinvestments inflates the amount reported in Schedules 3 and 4 as well as the total receipts and total disbursements on Statement B (Receipts and Disbursements).

When calculating the purchase of investments, subtract the value from the sale or redemption of U.S. Treasury securities, marketable securities, or other investments that were promptly reinvested (i.e., rolled over). This adjustment ensures that funds shifted to other investments are not erroneously counted as new receipts. Generally, "promptly reinvested" means reinvesting (or "rolling over") the funds within a week or less of the sale or redemption of the investment, without being used for any other purpose in the interim.

The total for "Less Reinvestments" on Schedule 3 must agree with the amount reported for "Less Reinvestments" on Schedule 4. If only a portion of the amount received was reinvested, only the reinvested portion should be included for "Less Reinvestments."

A labor organization that is unable to determine the precise source of the funds used to purchase a marketable security should assume that the investment is a prompt reinvestment, if the purchase occurs within one week of a prior investment, unless the labor organization can identify a separate source for the new investment.

For example, a union sells Investment A for $100 on March 1 and sells Investment B for $200 on April 1. A union purchases Investment C for $100 on April 5 and is unable to determine the source from which this $100 came. The purchase of Investment C for $100 on April 5 is a prompt reinvestment of $100 of the $200 sale of Investment B. The union would report the $200 Investment B sale and $100 on Less Reinvestments in Schedule 3, along with the $100 Investment C purchase and $100 on Less Reinvestments in Schedule 4.

Interest and Dividends

Interest and dividends received during the reporting period must be reported in Items 40 (Interest) and 41 (Dividends).

If you have any questions, please e-mail us at OLMS-Public@dol.gov or contact your nearest OLMS field office below.

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