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DOL Returns Subsidiary Reporting to Form LM-2

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Overview

Late last year, the Department of Labor (DOL) rescinded Form T-1, *Trust Annual Report*. As a result of this rescission, the DOL eliminated the T-1 reporting requirement for certain trusts in which a labor organization is interested and returned the reporting of subsidiary organizations to Form LM-2*. The updated Form LM-2 reporting requirements apply to labor organizations with fiscal years beginning on or after January 1, 2011; therefore, calendar year 2011 labor organizations need to follow these requirements.

Subsidiary organizations are defined as entities that are wholly owned, controlled, and financed by a single union. An example of a subsidiary organization is a building corporation in which the labor organization owns the building corporation, selects the officers and finances the operation of the building corporation. Other examples may include a local union strike fund, death benefit fund or scholarship fund.

It is important to note that a political action committee (PAC) fund **may** meet the definition of a subsidiary organization. However, the reporting requirements for PAC funds have not changed. PAC funds that are kept separate from your labor organization's treasury are not required to be included in your organization's Form LM-2 if publicly available reports on the PAC funds are filed with a federal or state agency (e.g., Form 460 filed with the California Fair Political Practices Commission).

Specifics

Labor organizations have the option of: (1) consolidating the subsidiary's financial information in the Form LM-2 report filed for the labor organization; or (2) attaching a separate audit report completed by a certified public accountant. The separate audit report must indicate that the financial report presents fairly the financial condition and operations of the subsidiary organization and was prepared in accordance with generally accepted accounting principles, and the report must cover the same reporting period as used by the reporting labor organization.

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When the second option is used, the labor organization's financial interest in the subsidiary organization must be reported either on Schedule 5 (Investments) or Schedule 7 (Other Assets), depending on the nature of the financial interest. Also, additional detail regarding the subsidiary organization's disbursements to officers and employees and loans made must be reported in an attachment to Form LM-2. ([Refer to pages 4–5 of Form LM-2 instructions for details.](#))

What You Should Do

Evaluate your labor organization's related entities to determine whether they meet the definition of a subsidiary organization. Discuss with your auditor and/or LM-2 preparer to determine the appropriate option for reporting such subsidiary organizations.

** The DOL also modified subsidiary reporting on Form LM-3, Labor Organization Annual Report, for organizations with total annual receipts of \$10,000–\$249,999, to be consistent with Form LM-2.*

Donnie Springer, CPA, has nine years of experience with audit and accounting services for labor organizations and employee benefit plans. Donnie currently manages several audits of labor organizations that represent between 600 and 10,000 members. She is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

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