Terms of Use Agreement
Electronic Books Purchased from Energize, Inc.

Thank you for purchasing this electronic book from the Energize, Inc. Online Bookstore, http://www.energizeinc.com\bkstore.html. ***Please carefully read this terms of use agreement before using the electronic book.*** By using the electronic book, you hereby accept the terms and conditions outlined below.

Content Usage

This material is protected under Copyright Law and is subject to the same use restrictions as a work printed on paper. The full work may not be reproduced, reposted or otherwise distributed without written permission of the Publisher. Multiple use rights may be purchased at reasonable cost. Furthermore, you agree that you will not decompile, reverse engineer, disassemble, or otherwise alter the document file.

Permissions

Copyright to this work is retained by the Publisher. Permission is granted for:

1. Back-up copying of the original file for security purposes only.
2. Printing pages for reading on paper, provided that no changes or deletions are made to the content, author attributions, or proprietary notices in the content.
3. The noncommercial reproduction of sample forms, figures, and short quotes from this work, provided a full bibliographic citation is given to the original source of the material.

Hardware/Software Usage

Energize Inc. is not responsible for providing, maintaining, and updating all access lines, computer equipment, and software applications (such as Adobe Acrobat Reader) required for download and use of electronic books. Software made available for download from our Web site is governed by the terms on the end user license agreement, if any, which accompanies the Software.

Need Help Reading eBooks?

For optimal use of our electronic books, please review our suggestions for hardware and software requirements on our Web site.

Self-Help Accounting

A Guide for the Volunteer Treasurer

John Paul Dalsimer, CPA

An Energize Inc. Publication

Acknowledgements

Thank you to those who helped create the original edition of this book. For part of Chapter 16, Mort Levy and Dick VanAggelen permitted us to adapt their original work, An Outside Accountant*, published by Accountants for the Public Interest in the 1970s. Henry Leibling provided the title. Jack Fisch, CPA, contributed technical editing. Susan Ellis, as editor, made sure the book was in English and not "accountingese."*

This 2003 edition benefited from updated material, especially about financial software, in the National PTO Network's guide, PTO Dollars and Sense: The Parent Group Leader's Guide to Financial Basics and Beyond *by Tim Sullivan, published earlier this year as an adaptation of* Self-Help Accounting*.*

Self-Help Accounting, 2nd edition

5450 Wissahickon Avenue
Philadelphia, PA 19144 USA
www.energizeinc.com

ISBN 0-940576-27-9 —2nd edition, 2003, electronic format

ISBN 0-940576-08-2 —Original edition, 1989
Library of Congress Catalog Card Number 88-83599

PRINTED IN THE UNITED STATES OF AMERICA

Table of Contents

Appendices

Introduction

You have accepted the position of volunteer treasurer of your organization. You know it is an important job (after all, you will be handling the organization's money). This book will help you to be an effective treasurer by helping you understand what you are doing. Then you will be better able to explain to your fellow board members the role they play in financial management. You will be able to develop financial reports that will be useful to you, the board, and your organization's members and supporters.

The assumption I have made is that you are not an accountant by training or profession. But the chances are good that you do have a personal checking or savings bank account. So you may be familiar with a great deal of what this book will cover, though it probably will introduce you to new vocabulary and procedures.

This book has been written in two parts.

The primary audience for Part One (Chapters 1 to 8) is the volunteer treasurer of any organization that does not need an outside accountant. Your organization is probably a relatively small one and your financial transactions (checks or cash received and checks written) are few in number. You may or may not be incorporated. In all likelihood, your organization will raise and spend less than $50,000 each year.

Part Two (Chapters 9 to 17) is aimed at an organization that will raise and spend in excess of $50,000. You are almost certainly incorporated and there may be paid staff that keeps all or some part of the financial records. However, the board of directors and its treasurer still have significant responsibility for fiscal management. Whether or not you will require the services of a certified public accountant (CPA) will, in large measure, depend on your sources of funds. Many federated fundraising agencies, foundations, and state charity regulators require an audit. Part Two will explain these and many other subjects to help you carry out your role as treasurer.

Those of you who feel that only Part One applies to you should nevertheless read Chapters 13 and 15, "Budgeting" and "Government Reporting Requirements." These two chapters contain information pertinent to any nonprofit organization, even though they fit most logically into the flow of Part Two. You might consider reading the rest of the chapters in Part Two for information that is applicable to your organization now or that will help you anticipate your financial systems needs as your organization grows.

Even if you feel that your organization falls under Part Two already, I strongly recommend that you begin by reading Part One. This will provide you with the basic foundation of vocabulary and approach necessary to understand Part Two.

I have tried to use as little accounting "jargon" as possible throughout. But obviously when talking about financial information, I have had to use accounting and other financial language. I will explain some of it as we go along and the glossary at the back of the book summarizes these terms and provides additional definitions.

This book does not go into detail concerning computers or financial software, although it is likely you will have access to such popular programs as Quicken®, QuickBooks®, or Microsoft Money®. Everything in this book can be done either manually or by computer-the fundamental concepts remain the same. Note that a computer cannot get off the desk and gather accurate information for you, so you have to be well organized before touching to the keyboard. Financial software can be time-saving and permits records to be transferred easily from one treasurer to the next. But you must decide which is easiest for you and most efficient for your organization.

Another subject not covered in detail is compliance with government agencies. The basic requirements are included in Chapter 15, but the United States and Canada have a multitude of federal, state or provincial, and local laws. It is not the intent of this book to be a law text, but it will make you aware of the type of reports and taxes you need to consider. You'll also find Web site addresses where you can get the latest information.

Read on. I feel confident you will find useful answers.

Part One

The Smaller Organization

1

The Financial Responsibilities of a Board of Directors

What exactly is a "board of directors"? A board is a group of people who have accepted the responsibility for an activity. The trustees of an art museum, the officers of a civic organization, and the directors of a social service agency are all members of a board of directors.

However, this book takes the concept of a board further. Boards of directors are "leaders." They are people who care about something and, in cooperation with other people, want to do something about it. This includes a group of neighbors who want to clean up their block, parents who coach and coordinate their children's soccer league and members of a church who run a food cooperative. In this book, I will call such leaders a "board" or "board of directors."

I know that most of us get involved with block groups, civic associations, church/synagogue activities, or historical houses because we are interested in what they do or whom they serve. Accomplishing any organization's goals takes time and people. It also often takes money. The effort may start with the participants' own money. But quickly there will be an attempt to raise funds from other sources: donations, fundraising events, and membership drives.

A board has to handle, use, and spend other people's money. Many of us do not feel comfortable managing our own money, let alone other people's. By the time you are finished reading this book, you should feel better about making financial decisions, maintaining a bank account, and understanding financial statements.

Both nonprofit organizations and profit-making businesses have to be "accountable" for the use of their funds, but the emphasis is different. The mission of a business is paying dividends to its owners; to "make a profit." The mission of a nonprofit organization is to provide a service or solve a problem. As long as it has enough money to continue its operations, it does not have to "make a profit."

However, a nonprofit organization does have to account for the money it uses that has come from its "owners": the members of the public who have donated funds and other resources. Board members, therefore, are sometimes called "trustees" because they maintain the trust of the public that the organization will be well-managed. This is often referred to as "stewardship."

One additional point. A nonprofit organization needs some money to operate. Income and expenses do not always come in the right order. Therefore, at the beginning of any period of time (a month or a fiscal year), some amount of cash must be available. For that period, income may exceed expenses. In a business, we would call that a "profit."

Nonprofits have to budget for enough “excess” to cover the operating expenses of the next period until income is received. So it may be good management for income to exceed expenses.

What a nonprofit cannot do, and what separates it from a business, is allow the excess (“profit”) to benefit any individual. There are no stockholders and dividends are not paid to anyone. The members of the board of directors manage the finances of the nonprofit organization but receive no personal monetary gain from any excess of funds. This is why some groups prefer the term “not-for-profit” over the term “nonprofit.”

Each member of the board is equally responsible for financial management—not just the treasurer. Unfortunately too often board members assume that, because someone is designated “treasurer,” he or she is taking care of the finances and everyone else has a limited role. The reason this happens is that most people are uncomfortable dealing with money. An important part of your role as treasurer is to make the board understand that what has been delegated to you is only the function of providing more detailed oversight to the organization's financial transactions. All board members must read your treasurer's report, ask questions, and be knowledgeable about your organization's financial status so that they can make appropriate programmatic decisions.

2

The Role of the Treasurer

Let's start with a job description for the volunteer treasurer of any organization:

Title: **TREASURER**

Purpose: To manage and report on the organization's finances.

Responsibilities:

1. Carry out the responsibilities of a member of the board of directors.
2. Maintain all bank accounts.
3. Provide oversight of all financial transactions.
4. Monitor the budget.
5. Report to the board of directors and general membership on finances.
6. Prepare any required financial reporting forms.

Qualifications:

1. Ability to keep neat and accurate records.
2. Willingness to pay attention to detail.
3. Availability to handle transactions on a timely basis.
4. Willingness to ask questions, even if this means being an irritant.

As you begin your responsibility of managing and reporting on your organization's finances, let's consider the basic categories for which you might be providing oversight:

1. Cash

"Cash" includes actual dollars and cents (currency and coin) on hand (perhaps in a cash register or cash box) and the amounts in any checking accounts. "Cash" also includes savings accounts and certificates of deposit.

2. Other Things Your Organization Owns

This could include:

a. inventory of items held for sale or distribution; banners, prizes, etc. not used up last year that can be re-used this year at an annual event

b. office equipment and furniture

c. land and buildings

d. automobiles, lawn mowers, etc.

e. investments in stocks and bonds

f. any amounts someone else owes your organization (accounts receivable)

3. Amounts Owed by Your Organization

This could include:

a unpaid bills for purchases

b. monthly obligations

c. loan repayments

4. Income

Income can be obtained from a variety of sources, including:

a. members' dues

b. receipts from admissions to special events

c. contributions, donations, and grants

d. sales of products or services

e. interest and dividends

5. Expenses

Expenses also include a wide variety of items, such as:

a. stationery and supplies

b. printing and duplicating

c. postage

d. telephone

As treasurer, you need a system for recording all of the above five categories. Let's get started!

3

Bank Accounts

Most treasurers inherit their organization's bank accounts when they begin their tenure. However, you may be with a brand new organization or may need to change banks or open an additional account. At the very least, you will want to be sure that you are added as an authorized check signer. Therefore, we'll begin at the beginning.

FEIN

If you are a brand new organization, you will need a Federal Employer Identification Number—even if you have no employees. In simple terms, the FEIN is a registration number with the Internal Revenue Service. See the sample form on page 12. The completed form is mailed back to the IRS. They will assign you a number in approximately eight weeks. However, most banks will let you open an account immediately and ask you to give them your FEIN as soon as you receive it.

Opening a Bank Account

The very first step is selecting a bank, which you will of course do based on the fees and the services provided by that bank. The bank will give you blank forms for opening the account. One of these will be that bank's standard "resolution" form. A sample is given on page 13 (each bank's form is a little different). This is a document that legally permits the bank to open an account in the name of your organization. It authorizes the bank to accept deposits and honor checks drawn in your organization's name. Your organization's board of directors must vote approval of this "resolution," which has the effect of authorizing the treasurer to open a bank account. This must occur each time a new account is opened or any changes are made in a current account.

The resolution passed by the board should include a list of who will be authorized to make transactions on that account. This usually means a list of positions (president, treasurer, etc.), not the names of individuals (Mary Smith, Ralph Jones, etc.).

Deciding who will be given this authorization is an important responsibility that the board has. One check signer should (I almost say must) be the treasurer. S/he is the person to whom your organization has said "we trust you with our money." But it is good management planning to permit more than one person to sign checks. This can be another officer such as the president or secretary, or it can be any member of the board or

Form **SS-4**

(Rev. December 2001)

Department of the Treasury
Internal Revenue Service

Application for Employer Identification Number

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

▶ See separate instructions for each line. ▶ Keep a copy for your records.

EIN

OMB No. 1545-0003

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested

2 Trade name of business (if different from name on line 1)

3 Executor, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)

5a Street address (if different) (Do not enter a P.O. box.)

4b City, state, and ZIP code

5b City, state, and ZIP code

6 County and state where principal business is located

7a Name of principal officer, general partner, grantor, owner, or trustor

7b SSN, ITIN, or EIN

8a **Type of entity** (check only one box)

☐ Sole proprietor (SSN) ______
☐ Partnership
☐ Corporation (enter form number to be filed) ▶ ______
☐ Personal service corp.
☐ Church or church-controlled organization
☐ Other nonprofit organization (specify) ▶ ______
☐ Other (specify) ▶
☐ Estate (SSN of decedent) ______
☐ Plan administrator (SSN) ______
☐ Trust (SSN of grantor) ______
☐ National Guard
☐ Farmers' cooperative
☐ REMIC
☐ State/local government
☐ Federal government/military
☐ Indian tribal governments/enterprises

Group Exemption Number (GEN) ▶ ______

8b If a corporation, name the state or foreign country (if applicable) where incorporated — State — Foreign country

9 **Reason for applying** (check only one box)

☐ Started new business (specify type) ▶ ______
☐ Hired employees (Check the box and see line 12.)
☐ Compliance with IRS withholding regulations
☐ Other (specify) ▶
☐ Banking purpose (specify purpose) ▶ ______
☐ Changed type of organization (specify new type) ▶ ______
☐ Purchased going business
☐ Created a trust (specify type) ▶ ______
☐ Created a pension plan (specify type) ▶ ______

10 Date business started or acquired (month, day, year)

11 Closing month of accounting year

12 First date wages or annuities were paid or will be paid (month, day, year). **Note:** *If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year)* . . . . ▶

13 Highest number of employees expected in the next 12 months. **Note:** *If the applicant does not expect to have any employees during the period, enter "-0-."* . . . . ▶

Agricultural	Household	Other

14 Check **one** box that best describes the principal activity of your business.

☐ Health care & social assistance ☐ Wholesale–agent/broker
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Accommodation & food service ☐ Wholesale–other ☐ Retail
☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☐ Other (specify)

15 Indicate principal line of merchandise sold; specific construction work done; products produced; or services provided.

16a Has the applicant ever applied for an employer identification number for this or any other business? . . . . . ☐ **Yes** ☐ **No**

Note: *If "Yes," please complete lines 16b and 16c.*

16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.

Legal name ▶ Trade name ▶

16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.

Approximate date when filed (mo., day, year) | City and state where filed | Previous EIN

Third Party Designee

Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Designee's name — Designee's telephone number (include area code) ( )

Address and ZIP code — Designee's fax number (include area code) ( )

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

Applicant's telephone number (include area code) ( )

Name and title (type or print clearly) ▶

Applicant's fax number (include area code) ( )

Signature ▶ Date ▶

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 16055N Form **SS-4** (Rev. 12-2001)

FOR BRANCH USE ONLY	
Account Number	
Accepted By	
Employee Number	
Branch Number	Date

ORGANIZATION RESOLUTIONS

Name of Organization ______________________________

Address ______________________________

RESOLUTIONS of the ______________________________
(name of governing body)
of the organization described above (herein called the "Organization").

RESOLVED, that a deposit account in the name of this Organization be opened and maintained with

(herein called the "Bank") and that any ______________________________ of the officer(s) hereinafter in this
(number of signatures required to sign)
Resolution specified is/are hereby authorized to sign checks or other orders for the payment of money from said account to any person, firm, corporation or other organization whatsoever including said officer(s) or any of them, and to execute any agreement approved by such officer(s) setting forth the terms governing said deposit account, and the Bank is hereby authorized to pay the same, the officer(s) referred to above being the following:

____
(Fill in the "official title" of all authorized signers. If no official title, classify as "authorized signer.")

____

____

RESOLVED, that any monies, checks or other instruments which may come into the possession of this Organization may be deposited in said account, and may be endorsed by any person authorized to sign checks or endorsed in writing or by stamp without designation the person so endorsing.

RESOLVED, that the Secretary or any Assistant Secretary of this Organization is hereby directed to certify to the Bank the names of the presently duly elected and qualified holders of the offices specified in the foregoing Resolutions and specimens of their signatures, and from time to time hereafter as changes in the holders of said offices are made the President, any Vice President, the Secretary or any Assistant Secretary may certify immediately such changes and specimen signatures to the Bank, and the Bank shall be fully protected in relying on such certifications; and

RESOLVED, that the Bank may be requested, authorized and directed to honor checks, drafts or other orders for the payment of money drawn in the Organization's name, including those payable to the individual order of any person or persons whose name or names appear thereon as signer or signers thereof, when bearing or purporting to bear the facsimile signature or signatures of any authorized signer(s) on the account, and that said Bank shall be entitled to honor and to charge this Organization for such checks, drafts or other orders, regardless of by whom or by what means the actual or purported facsimile signature or signatures thereon may have been affixed thereto, if such signature or signatures resemble the facsimile specimens duly certified to or filed with the Bank by the Secretary or other officer of this Organization; and

RESOLVED, that the foregoing Resolutions shall remain in full force and effect until a valid Resolution of the Organization amending them or rescinding them shall have been received by the Bank, and that receipt of such Resolution shall not affect any action taken by the Bank prior thereto.

I, Secretary (or Assistant Secretary) of the above Organization, hereby certify that the foregoing is a true copy of Resolutions duly adopted by the ______________________________

of said Organization, at a meeting duly called and held on ______________________________ , 19_____ , at which a quorum was present throughout and voted; that said Resolutions have not been rescinded or amended and are in full force and effect and have been entered in the proper minute books of said Organization; and that the names of the present holders of the offices are as follows:

Name (All Officers Including Non-Signers)	Title

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal, if any, of said Organization, this __________ day of ______________ , 19_____ .

____
(Secretary)

(SEAL) *Countersigned ______________________________
(Name) (Title)

*If the officer signing this certificate is designated in the resolutions as an authorized signing officer, this certificate must be countersigned by another officer of the Organization.

even general member of your association. (For larger organizations, it often makes sense for one of the check signers to be an employee.)

Authorize several check signers—at least three or four. Remember, even treasurers sometimes go on trips or get sick. You do not want to be dependent on one person only.

The next question to decide is whether or not you want to require that each individual check be signed by more than one person. This may be a good idea because it assures that at least two people will have to agree on how funds are spent. Unfortunately, what often happens to organizations that have the double signature rule is that the person not in possession of the check book pre-signs a few checks because it seems inconvenient to have to track down a second signature whenever a check is written. When checks are pre-signed, the first signer is signing a blank check which transfers all oversight to the second check signer. If this occurs, you may as well have checks signed by one person only and recognize that that is your system.

If it is inconvenient or would delay paying invoices to have two people sign each check at the time it is made out, an alternate system is to require only one signature on individual checks up to a stated dollar amount. Select an amount that covers many of your expenditures (maybe $99.99)—the amount will depend on your organization's needs. All checks over that amount (in this case, $100.00) would require two signatures.

In this way, you can easily handle checks for items in the budget that are routine and relatively small. But you have the protection that no one person can easily withdraw all the organization's cash.

It is not “wrong” to have checks signed by one person. The board of directors must consider what is safe for the organization, what is practical, and what risks they are willing to take.

Once you've determined who will be authorized to sign checks, you are ready to pass the necessary resolution. If you select the alternate system I described, someone might make the following motion:

> *I move to authorize the opening of a checking account at Savers Bank and to authorize the President, Vice President, Secretary and Treasurer to be check signers. Any one of the four are authorized to sign checks up to $ (your amount). Any two of the four are required on checks over $ (your amount plus one cent).*

Of course, the bank will need to know which individuals currently hold these positions and will give you signature cards (see example on next page) for this purpose.

You have options when you select the type of account to open. Some of the things you want to consider are:

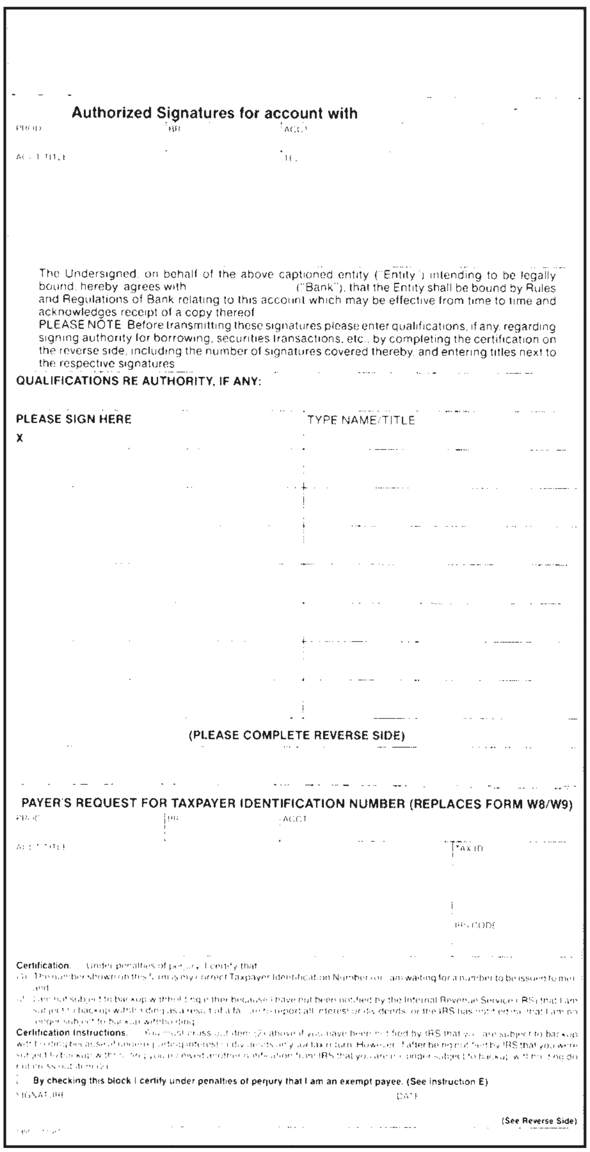
- Does the account pay interest?
- Is there a required minimum balance?
- Are there restrictions on the number of checks per month or a per-check charge?
- Are there service charges, and can they can be avoided?
- Are there additional costs for items such as check printing, depositing rolled coins, or a self-inking endorsement stamp?

You should not keep all funds in a non-interest-bearing checking account. Many banks today offer interest-bearing checking accounts, but be sure to determine any restrictions. Keep only one to two months' expenses in any account that does not earn interest. Excess funds can be placed into an interest-bearing account, but you should require two signatures for a withdrawal. Talk with your banker.

The Responsibility of a Check Signer

Each check signer must do the following:

1. Scan the check to be sure that it is complete in all respects and looks correct: Is the date current? Does the written amount agree with the numerical amount? etc.
2. Compare the name and amount on the check to the bill to be paid.
3. Be sure the bill has been approved by the appropriate person in the organization.



Authorized Signatures for account with

The Undersigned, on behalf of the above captioned entity ("Entity") intending to be legally bound, hereby agrees with ("Bank"), that the Entity shall be bound by Rules and Regulations of Bank relating to this account which may be effective from time to time and acknowledges receipt of a copy thereof.
PLEASE NOTE: Before transmitting these signatures please enter qualifications, if any, regarding signing authority for borrowing, securities transactions, etc., by completing the certification on the reverse side, including the number of signatures covered thereby, and entering titles next to the respective signatures.

QUALIFICATIONS RE AUTHORITY, IF ANY:

PLEASE SIGN HERE x | TYPE NAME/TITLE

(PLEASE COMPLETE REVERSE SIDE)

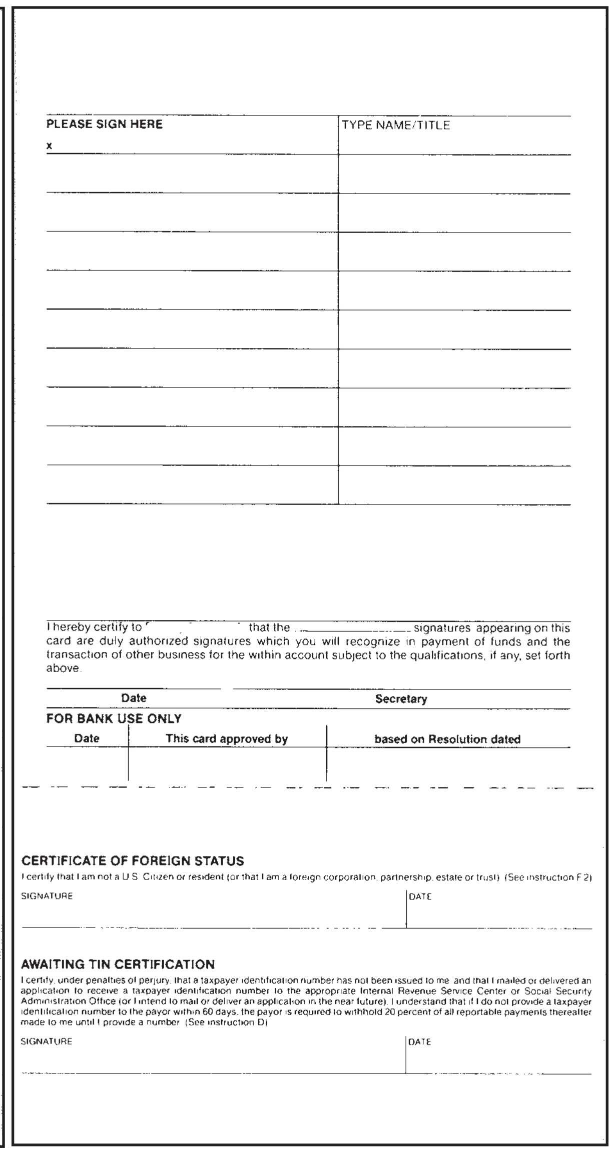
PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER (REPLACES FORM W8/W9)

Certification.

Certification Instructions.

By checking this block I certify under penalties of perjury that I am an exempt payee. (See Instruction E)

(See Reverse Side)



PLEASE SIGN HERE	TYPE NAME/TITLE
x	

I hereby certify to that the signatures appearing on this card are duly authorized signatures which you will recognize in payment of funds and the transaction of other business for the within account subject to the qualifications, if any, set forth above.

Date | Secretary

FOR BANK USE ONLY

Date	This card approved by	based on Resolution dated

CERTIFICATE OF FOREIGN STATUS

I certify that I am not a U.S. Citizen or resident (or that I am a foreign corporation, partnership, estate or trust). (See instruction F 2)

SIGNATURE | DATE

AWAITING TIN CERTIFICATION

I certify, under penalties of perjury, that a taxpayer identification number has not been issued to me, and that I mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office (or I intend to mail or deliver an application in the near future). I understand that if I do not provide a taxpayer identification number to the payor within 60 days, the payor is required to withhold 20 percent of all reportable payments thereafter made to me until I provide a number. (See instruction D)

SIGNATURE | DATE

If a check requires more than one signature, it is important that *each* check signer follows the procedure just outlined. Checks should never be signed in advance and it should not be assumed that a check is correct just because the first signer has already signed his/her name. **Remember, by signing a check, you are spending the organization's money.**

How to Reconcile a Checking Account

It is important to reconcile the checking account each month to be sure the balance in your checkbook is correct. Also, though it is not usual, banks do make errors and you want to make sure they are corrected. If you are using accounting software such as Quicken®, the program will help you to reconcile all your bank accounts. But it is still useful to know how to do this the "old-fashioned," manual way and several of the steps are necessary regardless of the method you'll use in your reconciliation.

When you receive your bank statement, you should:

1. Trace each deposit in your checkbook to the bank statement. Put a checkmark in your checkbook next to each deposit that is shown on the statement. Any deposit not shown because of the usual one or two day time lag is a "deposit in transit." date of the bank statement. If you prepare a monthly treasurer's report, you may want to reconcile through the last transaction you intend to include in that month's treasurer's report (which in most cases will also be the end of the month). By doing this, you will prove that the ending cash balance of the treasurer's report reconciles with the balance in the bank.

2. If you have your checks returned with your statement, put them in order by check number or date. Trace each check to the checkbook. Put a check-mark in your checkbook next to each check that has been returned. Any checks you have written and subtracted from your checkbook balance but which have not been returned by the bank (and therefore not yet cashed) are "outstanding checks."

You are now ready to reconcile the account. Your first decision is through what date to reconcile. You will be receiving the bank statement several days after its ending date, which may or may not be the end of a month. This time lag means that new transactions have occurred since the bank's closing date, but they probably can be ignored during the reconciling procedure.

It's generally best to reconcile through the ending date of the bank statement. If you prepare a monthly treasurer's report, you may want to reconcile through the last transaction you intend to include in that month's treasurer's report (which in most cases will also be the end of the month). By doing this, you will prove that the ending cash balance of the treasurer's report reconciles with the balance in the bank.

If you do not prepare a treasurer's report each month or if the bank statement is through a date other than month end, you can select any convenient checkbook date. By the way, it is possible to ask your bank to prepare your statement as of the last day of the month.

There may be other reconciling items. For instance, there may be a monthly service charge. You cannot record the charge in your checkbook until you receive the bank statement. Therefore, it would be another item to "add" in the reconciliation. Another possible item might be monthly interest earned. Again, you cannot know this amount until the bank statement is received. The interest would be another item to "subtract" in the reconciliation.

The secret is:

- If the item in question causes the bank statement to be higher than your checkbook balance—subtract it.

- If the item causes the bank statement to be lower than your checkbook balance—add it.

After you have completed the reconciliation, these "other reconciling items" must be entered into your checkbook. Service charges would be deducted from your checkbook balance, while interest earned would be added.

On the next page you will find the October bank statement for the mythical Sincere Society, as received by their treasurer. Below is the reconciliation that the treasurer has done. You can use this simple format, too. Many bank statements have something similar on the reverse side of the statement and you can, of course, use that.

All reconciling items of one month should be checked to make sure that they are cleared the next month. If not, they carry over, but should be analyzed to see if a problem exists.

The last line of the form, "balance per checkbook," must agree with the balance to which you are reconciling in your checkbook. If it does not, your checkbook does not reconcile and you must find out why. Start by checking your arithmetic on the reconciliation form. Then check the arithmetic in your checkbook since the balance to which you reconciled last month.

Bank Reconciliation
for
Sincere Society

October 31, 19XX

Balance per bank statement		$9474.11
Add: deposits in transit		82.42
		9556.53
Subtract: oustanding checks		
#402	$312.16	
#404	121.32	
#409	39.15	
#412	82.78	
		(555.41)
Balance per checkbook		$9001.12

EDBANK

ACCOUNT STATEMENT

Sincere Society

Period Ending 10/31/XX Account No 224-933

Date	Description of Your Activity	Debits	Credits	LedgerBalance
	OPENING BALANCE			7,021.16
10/03	Deposit		200.00	7,221.16
10/06	Deposit		505.78	
	Check 399	23.90		7,703.04
10/07	Check 401	16.27		7,686.77
10/12	Deposit		1,300.00	8,986.77
10/15	Check 403	94.73		8,892.04
10/20	Check 404	162.19		
	Check 405	18.95		
	Check 407	400.00		8,310.90
10/21	Check 406	112.16		8,198.74
10/22	Deposit		1,619,15	9,187.89
10/27	Check 408	29.62		9,788.27
10/28	Deposit		715.00	10,503.27
10/30	Check 410	229.16		
	Check 411	800.00		
	CLOSING BALANCE			9,474.11

If you are still not reconciled, again compare each deposit in the checkbook to each deposit on the bank statement. Then you should compare the amount of each check written from the check to the amount written in the checkbook. If the difference is still not located, compare each check to the amount charged on the bank statement. By following these procedures, you should have accounted for each item on the bank statement and in your checkbook. Any item not checked off should be the cause of the imbalance.

When you have reconciled the account, draw a line under the reconciled balance in your checkbook noting the date reconciled. See the example on page 22.

Savings Accounts

Savings accounts also need to be reconciled. The process just described for reconciling checking accounts can be used for savings accounts for which you receive a monthly statement from the bank. With this type of account, do your reconciliation monthly.

If you have a savings account that still uses the passbook system, you need to be sure that all transactions are reflected in your passbook. Normally this occurs each time you have a transaction with the bank. However, at least once a year, you should take your passbook into the bank and be sure the bank enters all interest and other transactions into it.

In any case, the balance per the bank's records should be reconciled with the balance on the organization's records.

File of Bank Statements and Cancelled Checks

After you have reconciled the bank accounts on the front or back of the bank statements, or on another piece of paper which should be stapled to the bank statement so it does not get lost, the statements should be filed by month. Deposit tickets can be stapled to each statement or, if numerous, kept in their own file.

Cancelled checks should be filed chronologically by date written, which usually also means by check number and the order in which they are entered in the checkbook.

A Word on Financial Software

As already noted, commercially-available financial software can be a great help in making a treasurer's life easier. These programs do not eliminate the need for care diligence, but do handle many of the more tedious elements of the treasurer's job such as reconciliations and reporting. Also, when used consistently over time, such software builds an accurate archive for future treasurers.

You can create an individualized manual for your organization and for future treasurers by filling in the information identified at the end of each chapter. Keep a file with samples of any form you use. When your term of office is complete, give your successor this book and help him or her get started. Be sure to keep the information up to date.

For My Successor

Our FEIN is:

Our banks and account numbers are:

The authorized check signers are:

4

The Financial Records

I have used the term “financial records” or “the books” several times. Let's now discuss these in some detail.

If the number of transactions is very small, it may be possible to keep all the financial records in the checkbook. The sample of checkbook stubs on page 22 shows:

1. The date of deposit, from whom the money was received and the amount.

2. The date the check was written, to whom it was paid, the purpose for which it was paid and the amount.

These records could be summarized and the treasurer's report, as discussed in Chapter 5, could be prepared. **The key to financial records is: Can the necessary reports be prepared easily, accurately and on a timely basis from these records?**

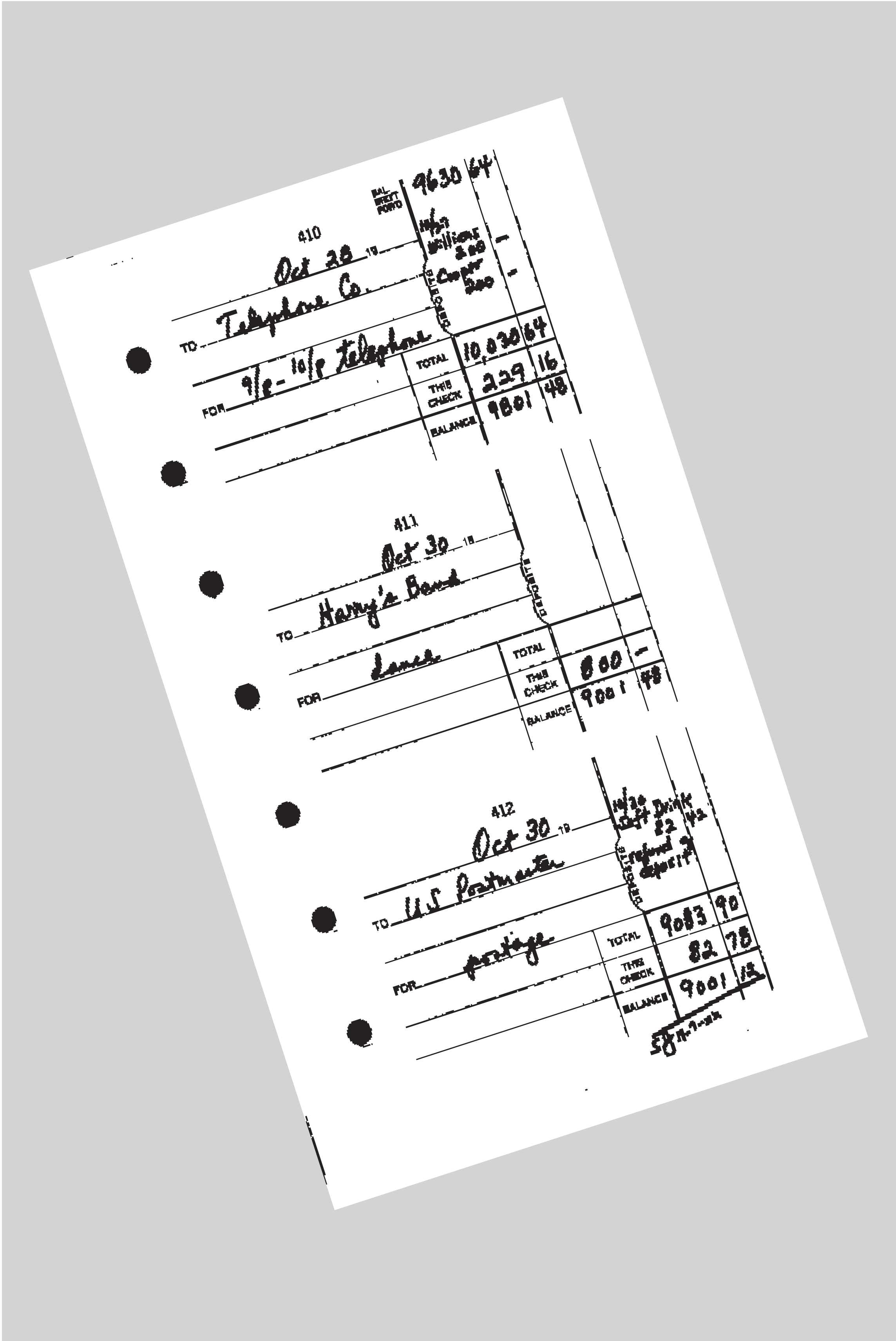
As an organization grows or if the number of transactions is numerous, additional records need to be kept. Even a small organization may receive a significant number of membership dues. In these cases the checkbook alone will not be an adequate record.

The two basic records then needed are the cash receipts journal and the cash disbursements journal.

Cash Receipts Journal

Note: At this point, I am going to assume your organization is on the “cash basis.” That means you record financial transactions when cash changes hands. There is another accounting method, the “accrual basis,” but I have deferred that discussion until Part Two (see Chapter 10).

The cash receipts journal (see sample on page 23) is a listing of all cash received, in chronological order and assigned to the appropriate category. You can buy accounting paper in a variety of formats with enough columns to keep any financial records. The basic procedure is the same whether you keep a journal by hand or use a computer, but financial software definitely makes this type of recordkeeping easier by setting up columns and headings for you and automatically calculating and generating reports.



410
BAL. BRO'T FOR'D 9630 64
DEPOSITS 10/27 Williams 200 — Cooper 200 —
Oct 28 19
TO Telephone Co.
FOR 9/8 - 10/8 telephone
TOTAL 10,030 64
THIS CHECK 229 16
BALANCE 9801 48

411
Oct 30 19
DEPOSITS
TO Harry's Band
FOR Dance
TOTAL
THIS CHECK 800 —
BALANCE 9001 48

412
Oct 30 19
DEPOSITS 10/30 Soft Drink 82 42 refund of deposit
TO U.S Postmaster
FOR postage
TOTAL 9083 90
THIS CHECK 82 78
BALANCE 9001 12

Sincere Society Cash Receipts Journal

19xx date		received from	Cash ①	②	Contributions ③	Dance Income ④	Miscellaneous item ⑤	Miscellaneous amount ⑥
9	29	J. Neal	225 -		225 -			
		M. Geraghty	195 -		195 -			
9	30	Smith Supplies	80 -		80 -			
		Total - September	3812 16		3670 -			142 16
10	2	Andy Ross	200 -		200 -			
10	6	Cindy Sone	125 -		125 -			
		Copyfast	40 78				refund	40 78
		Henry + Ann Karp	140 -		140 -			
		S. Epps	200 -		200 -			
10	10	D. Johnson	100 -		100 -			
10	12	The Bank	1200 -		1200 -			
10	20	S. Jones	200 -		200 -			
10	21	Charles Coleman	100 -		100 -			
10	21	dance proceeds	1219 15			1219 15		
10	22	J. Hinkson	100 -		100 -			
10	24	M. Smith	215 -		215 -			
10	27	Bill Thompson	200 -		200 -			
		R. Williams	100 -		100 -			
10	28	W. Cooper	200 -		200 -			
10	30	Soft-Drink, Inc.	82 42				Deposit refund	82 42
		Total - October	4422 35		3080 -	1219 15		123 20

The columns in the journal should be labeled to correspond with the line items in the budget, which should be the same as the items in the treasurer's report. This makes preparation and presentation of both easier. However, there does not have to be a column for every item. A "Miscellaneous" column can be used for items that occur once a month or even less frequently. An example is interest earned. Make a column for any category in which there are multiple transactions in a month.

As you receive money (cash or checks), you enter each receipt, noting the date and its source. Enter the total amount received in the first column under "Cash." Then, moving across the same line, enter the amount again under whichever category is appropriate.

On a few occasions, cash will be received from one source for more than one category. For instance, a member may send in one check for both membership dues and a contribution. When this happens, you must "distribute" the amount received into as many of the columns as are necessary, showing the amount allocated to each (for example, $10 to dues, $50 to contributions). When you are done with each line, the total of the amounts recorded in all the categories should equal the amount shown in the Cash column.

This process is what is called "double entry bookkeeping." I hope you agree that it is straightforward and relatively simple.

At the end of the month, you add up each column. The total of all the category distribution columns must equal the total Cash column.

If you use a software program, the computer screen will ask you to assign each receipt or payment to the appropriate category, as you would in processing it by hand. The program then automatically adds or deducts the amount. It will also allow you to sort transactions as you wish by date, payee, or a specific category. This lets you see at a glance how each category is faring compared to its budget.

Cash Disbursements Journal

The cash disbursements journal, as shown on page 25, is a listing of all cash disbursed, in chronological order and assigned to the appropriate category.

Again, the columns should be labeled to agree with the budget and treasurer's report. As with cash receipts, there does not have to be a column for each expense category and you can use a "Miscellaneous" column to record items that occur once a month or less (such as rent or insurance).

As above, keep this journal using double entry bookkeeping, distributing each cash disbursement to its appropriate category or categories. Each line must balance across. At the end of the month, you add up each column. The total of all the category distribution columns must equal the total Cash column.

Remember…

From these "books," you should be able to prepare your treasurer's report easily.

To reiterate, you may find a checkbook is sufficient. It may provide all the information you need to prepare your treasurer's reports. Or, if you have a few deposits but write a lot of checks, you may not need a cash receipts journal, but may want to keep a cash disbursements journal. **Consider your specific needs at this point in time, meet them, but be aware that those needs may change.**

Sincere Society Cash Disbursements Journal

19xx date		payee	check #	① Cash	② Telephone	③ Copying	④ Postage	⑤ Miscellaneous item	⑥ Miscellaneous amount
		forward		528 56		89 98	72 96		365 62
10	18	Copyfast	406	112 16				repair to typewriter	112 16
10	23	Morgan Hall	407	400 –				dance	400 –
10	23	Copyfast	408	29 62		29 62			
10	27	Party Favors, Inc.	409	39 15				dance	39 15
10	28	Telephone Co.	410	229 16	229 16				
10	30	Harry's Band	411	800 –				dance	800 –
10	30	U.S. Postmaster	412	82 78			82 78		
		Total - October		2221 43	229 16	119 60	155 74		1716 93
11	3	Copyfast	413	22 07		22 07			
11	4	MC Sprin	413	36 12	36 12				

Petty Cash

Petty cash is an amount of currency and coins kept on hand in an envelope or a box. Its purpose is to avoid writing a check for small amounts.

A petty cash amount should be established by the board of directors. It should be relatively small (maybe $10, $25 or as much as $100) and should be ''used up'' fairly frequently—at least every two months. You do not want too large an amount of cash to sit in a petty cash box. It is not safe and does not earn interest. The amount needed can be determined by the frequency of its depletion.

If the amount is set at $25, the money should be spent until a small amount, say $5.16, is left. Then, all the receipts (store-prepared or notes from a member) should be totaled and a check requested for $19.84—to restore the fund to $25 again. It is at this point that the disbursement of $19.84 should be "approved" and a check written. This check should be made payable to the custodian of the fund (that is, to an individual), not to "cash." Then the cycle is repeated.

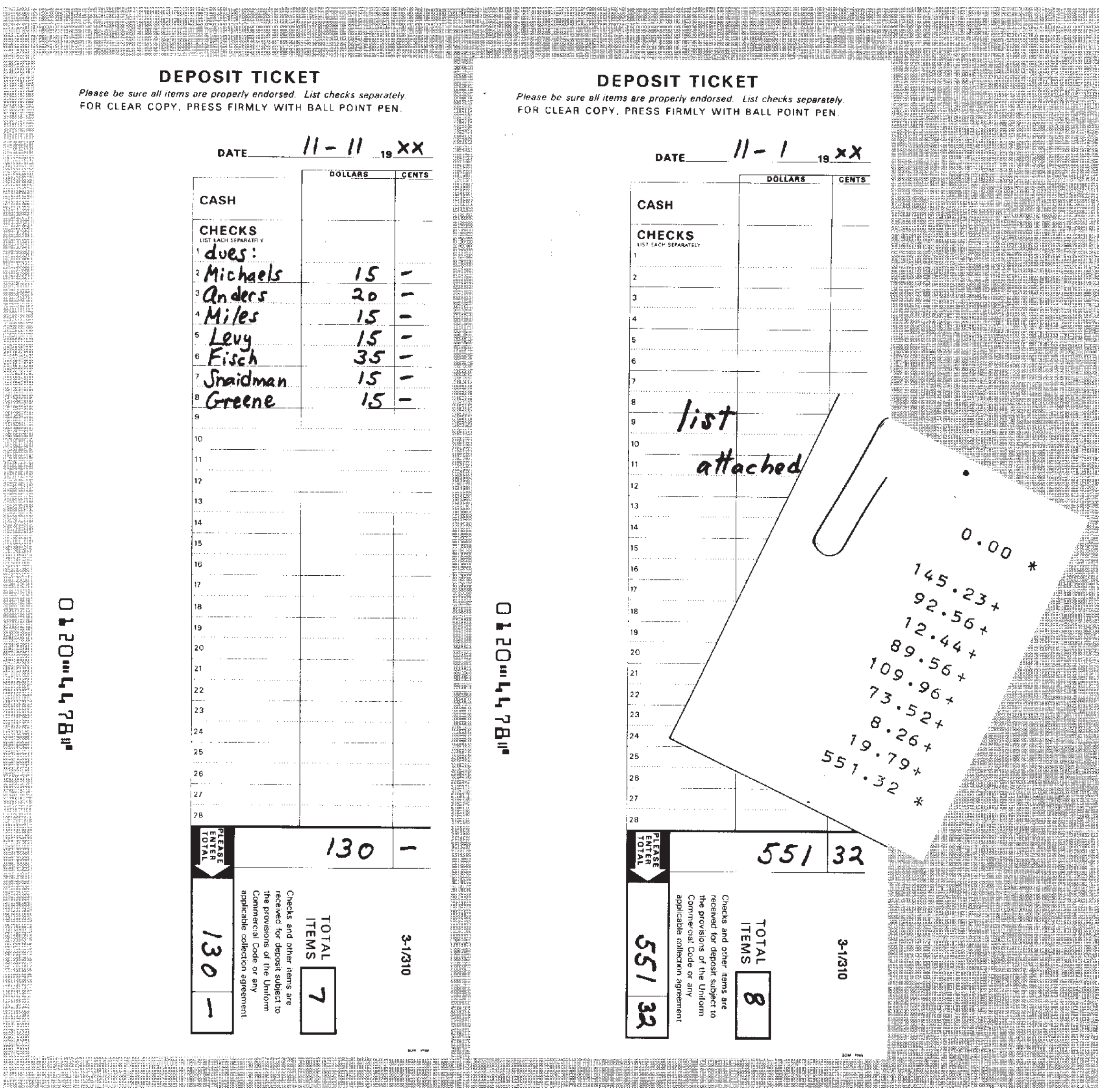
Use of a Bank Deposit Ticket

Insider information: You can use your preprinted bank deposit ticket in ways that can save you time.

First, you can use the deposit ticket as your cash receipts record. Instead of entering data such as a bank number for each check deposited, enter the name of the person or organization from whom the money was received (see the example on the left below). The list of names will not disturb the bank.

This idea works best when there are lots of items and they are all for the same purpose—such as members' dues, checks taken in at a fundraising event, etc.

Second, if you have many checks to deposit, you do not have to list each one separately, either by name or bank number. Instead, you can run an adding machine tape of all the checks and include that with your deposit. On the deposit ticket, simply write "list attached." See the example below, on the right.



If you use this adding machine tape idea, you should list each individual item in your cash receipts records and add up that listing before you make the bank deposit to be sure you get the same total. Doing this means you will end up with two adding machine tapes that must agree, one of which will go to the bank. (Hint: You can also enter this total in the cash receipts records as a sub-total and save time at month end when it is time to add up the cash receipts records.)

For My Successor

We maintain our financial records in:

- ☐ a computer using this software:________________________
- ☐ our checkbook
- ☐ a cash receipts journal
- ☐ a cash disbursements journal
- ☐ ________________________

Our petty cash system is:

5

The Treasurer's Report

The treasurer of any organization must report on the financial transactions of that organization. This report should be made monthly. If the organization meets bi-monthly or quarterly, it may be sufficient to report only at each meeting. The purpose of financial reporting is to make sure that any decisions that need to be made can take into consideration accurate and up-to-date financial data. Therefore, regardless of the frequency of meetings, it is probably still useful to give board members a treasurer's report monthly.

Let us now consider the treasurer's report of a small nonprofit organization with a volunteer treasurer. An example is on the next page. As you can see it shows:

- the name of the organization
- the period which the report covers
- the cash balance at the beginning of the period
- the income received during the period
- the expenses paid during the period
- the cash balance at the end of the period
- the signature of the treasurer

As you can see from the example, the cash balance at the end of the period equals the cash balance at the beginning of the period, plus total income, minus total expenses. Note that the cash balance at the end of the period should agree with the "balance per checkbook" on the bank reconciliation.

This format is usable both for a report to the board of directors or for a general membership meeting. Accuracy is important, but great detail is not. You do not need to show every single transaction that occurred during the period. In reporting income and expenses, show only significant items and combine small amounts as "other." **A report that people understand is better than a detailed one that is confusing.**

On the example, the proceeds and expenses of the "Dance" are shown separately. An alternative way to report on the dance would be to "net" income and expenses and show the result as an income item or an expense item only. In this example, since the dance generated $1219.15 but cost $1462.45, the result was a net expense of

Sincere Society
Treasurer's Report
for the month ended October 31, 19xx

Cash balance, September 30		$ 6800 20
Income:		
Contributions	$ 3080 00	
Proceeds from dance	1219 15	
Other	123 20	4422 35
		11222 55
Expenses:		
Dance	$ 1462 45	
Telephone	229 16	
Copying	119 60	
Postage	155 74	
Stationery	142 32	
Other	112 16	2221 43
Cash balance, October 31		$ 9001 12

Susan Jones, Treasurer

$243.30. So the dance could have been reported only under the “expense” column as: Dance—net, $243.30. Had income exceeded expenses, the dance would have been reflected only under “income.”

This alternative should only be considered for special fundraising events, not for regular, ongoing programs. A disadvantage to the “net” method is that in the months before the event, the net amount may be income one month and expenses the next. Such fluctuations should be explained to the board.

Regardless of the method you use in the treasurer's report, a detailed financial report on the special event should be prepared. See “Special Cash Receipts” in Chapter 7.

The treasurer's report should always be in writing. There should be copies for all members who will be present at the meeting when the report is presented. Ideally, members should receive the report in advance of the meeting so they can more thoughtfully fulfill their responsibility of understanding the treasurer's report and asking questions, if necessary.

You, as treasurer, will present the treasurer's report orally at the meeting. Keep this oral report brief and succinct. All that need be stated is the opening balance this month (or quarter or other period), the total income, the total expenses and the ending balance this month. It is easier for listeners to understand if you read the figures as dollars only, without mentioning cents. Explain any large or unusual items, either income or expenses—this is one of your responsibilities as treasurer.

On the written report can be a list of any significant amounts due the organization or any significant unpaid bills on hand. This can be summarized in the oral report.

Once the oral report is presented and all questions answered, the chair should say: “The treasurer's report is filed.” Following proper parliamentary procedure, the treasurer's report is never “moved, seconded, and adopted.” The appropriate term is “filed” or “filed for audit.” The reason for this is that the members present have no way to “approve” the details of the treasurer's report; they can only “acknowledge” it.

The secretary should be given a copy of the treasurer's report for attachment to the minutes. It is unfair (and unwise) to expect the secretary to write down numbers as they are being read aloud.

One more point about the treasurer's report. Your organization should have a budget. It may be a formal one approved by the board of directors (and I will discuss this more in Chapter 13 in Part Two) or an informal one, but you need some estimate of income and expenses for the forthcoming year. The categories of income and expenses on the treasurer's report should be the same as those in the budget. At the very least, they should be consistent from one report to the next. Things may have to be added from time to time, but the order should be maintained. This makes it possible for the board or the members to compare treasurer's reports from month to month and year to year.

One final hint. You can standardize your treasurer’s report by creating a simple form in a computer word processing program or on a typewriter, showing all the various categories, with blanks where the numbers will go. Print out or photocopy this blank report and each month simply insert the correct month and numbers. This saves time and ensures consistency. A handwritten or partly-typed, partly-handwritten report should be acceptable as long as it is legible.

Financial software, of course, can produce reports easily. Even a simple spreadsheet program such as Microsoft Excel® can work very well to format treasurer’s reports.

For My Successor

Treasurer's reports are prepared on the following schedule:

Things to remember are:

6

Internal Control

Internal control refers to a system of financial checks and balances designed to protect your organization. It is a system that tries to make sure money is being spent in the way the board wants it to be spent. It also provides some assurance that money or other things of value do not disappear and that mistakes do not occur.

One of the basics of good internal control is that no one person should handle all aspects of any financial transaction. This creates a system of "checks and balances." An example is that the person who approves a bill to be paid should not be the same person who signs the check to pay it.

However, it is likely that your organization has no paid staff support, there are only one or two bank accounts (checking and savings) and there is you—the treasurer. It may not be easy or practical (you may cover a wide geographical area) to involve several people in all financial transactions and therefore you may be assuming that your organization will have poor internal control. However, I will be suggesting some possible safeguards to alleviate this potential problem.

Most of the organizations for which this book is written will have "cash" as their only asset. There will be no receivables, buildings or equipment, inventory, bank loans, or accounts payable (other than a few unpaid bills). Whatever is in the bank is what is available for the purposes of the organization. Therefore, internal control procedures need to be developed primarily for cash receipts and cash disbursements.

Cash Receipts (Income)

Cash (checks or currency) should be deposited in the bank as soon as possible. It is best if only one person, preferably the treasurer, handles all receipts. If any other members of the organization receive money, they should turn it over to the treasurer as soon as possible, with an explanation of what the amount is for. The treasurer should also count the money received and give the other person a receipt indicating the amount received.

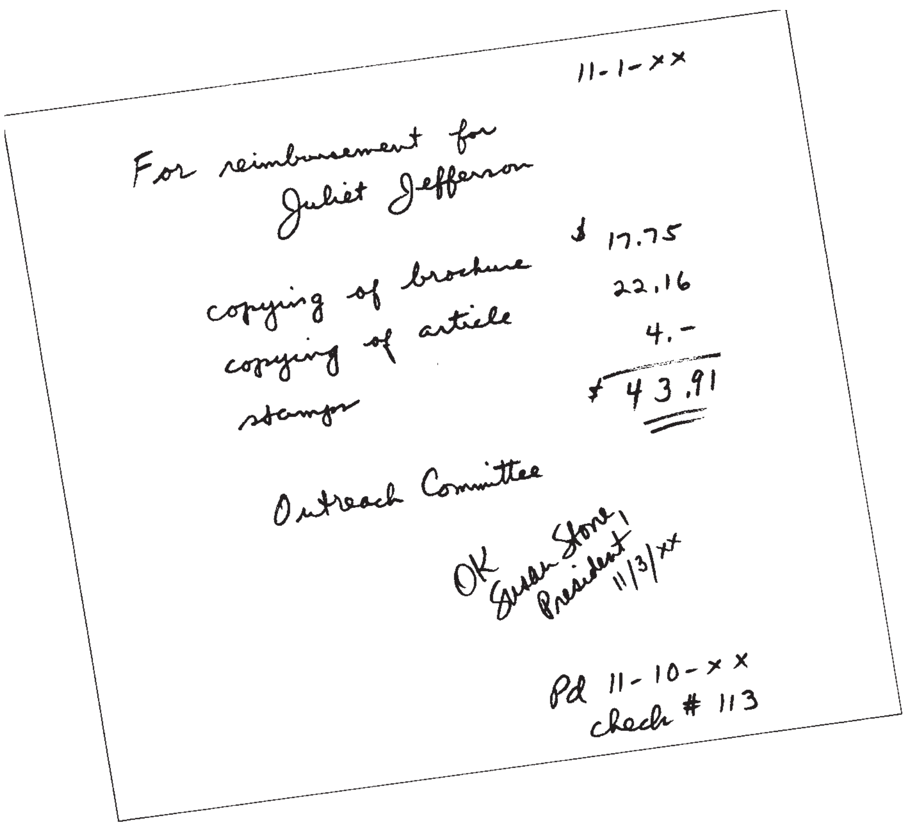
There may be situations in which another member may receive a large number of checks and currency. This could include the person running a membership campaign, the chair of a conference, or the chair of a fundraising event (see Chapter 7, "Special Cash Receipts"). In such cases, you may want that person to make deposits directly to the bank to avoid delay and risk of loss. When this occurs, a copy of the deposit ticket should be forwarded to the treasurer immediately. It is important that the treasurer be given a detailed listing of what was included in each deposit. Remember the idea of using the deposit slip as the cash receipts record.

Cash Disbursements (Expenses)

Any invoice (bill) should be approved for payment by the person who knows what the expense was for. For internal control purposes, it is best that this be someone other than the treasurer. The authority to approve invoices may be restricted to the president or certain committee chairs. The minutes of the board of directors should record who can approve invoices.

Sometimes an invoice may be just a note from a member of the organization for reimbursement of some things paid by him or her (see below). The point is that an invoice does not have to be a formal receipt from a store.

As indicated above, it is best if a third person approves the invoice (the presenter of the invoice and the treasurer who makes the payment being the other two people). This provides a system of checks and balances. Since, from a practical standpoint, most invoices originate with someone other than the treasurer, few difficult or complicated situations should arise.


11-1-xx

For reimbursement for
Juliet Jefferson

copying of brochure $ 17.75
copying of article 22.16
stamps 4.-
$ 43.91

Outreach Committee

OK Susan Stone, President 11/3/xx

Pd 11-10-xx
check # 113

The treasurer should be sure that any time s/he receives a bill to be paid, approval is indicated by a signature or initials and a date. As invoices are paid, the check number and date should be written on the invoice and it should be filed in check number order. If you write more than 20 to 30 checks per month, you may want to consider filing the invoices alphabetically by payee.

The rule to follow is: set up a payment system that prevents an invoice from being paid twice and a filing system that allows a paid invoice to be found easily if needed.

Bank Reconciliation

As already discussed, all bank accounts must be reconciled each month. The best internal control would be to have the bank mail the monthly bank statement to someone who is not a check signer and that s/he obtain the checkbook and reconcile the account "independently" of the treasurer. This may not be practical, in which case the treasurer must be the one to reconcile the account each month.

Bonding

Unfortunately I must point out that treasurers (and other members) of nonprofit organizations have been known to misuse funds. This can be very embarrassing to the board and can be expensive for, or even ruin, an organization. Some groups purchase an insurance policy to protect themselves against misuse of their funds. This type of insurance is called a "fidelity bond" or "bonding." It is usually quite inexpensive and is something your board of directors should consider.

Discuss this with an insurance agent.

For My Successor

This is our system for providing “checks and balances”:

7

Special Cash Receipts

If your organization collects members' dues, runs an annual conference, sells things on a regular basis, or holds a fundraising event, you may want to use the following procedures to keep track of these activities separately.

Members' Dues or Conference Registrations

People such as the Membership Chair or Conference Chair are the logical ones to receive checks or cash for their function. Of course, they can collect such funds and hand them to the treasurer for deposit. They can also mail checks (never mail cash!) to the treasurer. The third option is to permit the collector of the funds to deposit them directly into the bank.

Regardless of which choice you make, the person collecting the funds should prepare a record of how much was collected, from whom, and for what. Every time funds are given to the treasurer or deposited in the bank, one copy of this report should be given to the treasurer and one copy kept by the preparer. These reports should be dated, numbered consecutively, and signed by the preparer. These reports then become a chronological and cumulative financial record of the activity.

A sample report form is shown on page 38. The instructions for completing the form would be:

1. For each receipt, fill in the "Received From" and the "Total Amount" columns. Then show what the amount received was for by entering the correct dollar figure in the appropriate column or columns.

2. If the amount is for conference registration only, the same dollar figure will be shown in both the "Total Amount" and "Conf. Regis." columns. However, if the amount is for both conference registration and for something else, the correct dollar amount for each must be entered in the proper column.

3. The total of the "Total Amount" column must equal the amount given to the treasurer or deposited in the bank.

STATE TRAIN ASSOCIATION
State Conference Cash Receipts

REPORT # 3

	Received from	Total Amount	Conf. Regis.	Member-ship	Other	Explanation
1	S. Smiley	216.-	200.-	16.-		
2	W. Gradson	200.-	200.-			
3	C. Zisman	200.-	200.-			
4	B. Coles	216.-	200.-	16.-		
5	C. Green	236.-	200.-	16.-	20.-	pins
6	M. Squires	200.-	200.-			
7	S. Harris	200.-	200.-			
8	R. Burmeister	200.-	200.-			
9	J. Mueller	255.-	200.-	16.-	39.-	plaque + pins
10	J. Silverman	200.-	200.-			
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
	Total for deposit	2123.-	2000.-	64.-	59.-	
	Signed: Andy Stoner		Date 4-8-xx			

While the sample is for a conference, the same format can be adapted for membership dues or other similar receipts.

If someone other than the treasurer is depositing funds directly into the bank account, the deposit ticket must be given to the treasurer with the report. The treasurer can then make one entry in the checkbook and in the cash receipts journal.

Cash Sales

Your organization may make cash sales in various way throughout the year. This could include sales of mugs or tee shirts, dinner tickets at a conference, books, etc. It is important to have a record of such sales to keep control of inventory and cash. By using a form such as the one on page 40, you accomplish this goal. Obviously you should make as many columns as you need.

The advantage of providing a prepared form to your members handling sales is that it avoids the otherwise inevitable use of yellow pads, scraps of paper, and other informal methods of recordkeeping. If you have several people working at the same time, each person can have his or her own copy of the form, but everyone will be using the same system.

Use of this type of form simplifies knowing how much cash should be accounted for at the end of the shift and exactly what was sold.

Special Events

Many organizations work with a relatively small amount of money most of the time. But once or twice a year, they have a special event—a dance, a picnic, a bazaar, a conference. On that occasion or for the few months around it, an unusually large amount of money may be received and paid out. Also, during this time many members may be involved in handling cash.

Consideration should be given to the financial management of this type of event. It may be a good idea to appoint a treasurer for a special event who is not the treasurer of the organization.

The special event treasurer would be responsible for all cash received, which can then be deposited into the regular bank account. S/he would submit "invoices" to the organization treasurer for payment. All the procedures for handling cash receipts and disbursements discussed earlier would apply. A statement of income and expenses for the special event should be prepared by the special event treasurer for presentation to the board and inclusion in the organization treasurer's monthly report.

The advantages of appointing a special event treasurer are: 1) it relieves the organization treasurer of being responsible for all the financial aspects of the organization and therefore "spreads" the work; 2) it gives someone experience as a treasurer who then has the potential to become the organization's treasurer in the future; and 3) for an organization that has a special event in a geographic area not near the organization treasurer, it enables someone "on the spot" to be responsible for the finances and handling of cash.

If the event generates significant cash transactions, you may consider opening a special bank account and closing it after the event. If you do this, all the procedures for opening and operating a bank account should be followed.

The Lacrosse Team

Sales on 3-18-xx

	Sold to:	$6.00 Mugs	$9.00 T-Shirts	$7.50 Pins	Other			Total Rec'd.	$-cash ✓-check
1	Dan Weisbrod	1						6.-	$
2	Frank Harris	1	1					15.-	✓
3	John Landy		1					9.-	$
4	Peter Swain	1						6.-	$
5	Michael Young	1						6.-	$
6	Deborah Dale	1	2					24.-	✓
7	Estelle Simon	1						6.-	$
8	David Hall	1						6.-	$
9	Walter Kelly	1						6.-	$
10	Bill Meider	3						18.-	✓
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									
	Total	11	4					$102.	
	Collected by: Jane Jeffery								

Beginning Cash Fund

You may need a beginning cash fund for making change, which can be handled similarly to petty cash (see Chapter 4). Based upon previous experience or an estimate, a specific amount should be approved by the board of directors. The treasurer writes a check to the chairperson of the event or to the special events treasurer (never write a check to "cash") to provide a beginning cash fund.

Depending on the event, you might have one central or several cash boxes. For instance, if the event is a bazaar with several booths, each booth can be given a specific amount of cash with which to begin. This amount should be written down.

At the end of the event, or at intervals during the event to prevent large amounts of cash being accumulated in public places, the cash should be counted and given to the treasurer (or whoever is responsible) with a piece of paper indicating the amount collected. The treasurer and/or assistants should immediately count the money and "agree it" to the amount indicated, in the presence of the person turning in the cash. The purpose for doing this is to try to prevent mistakes and to avoid potentially embarrassing situations for everyone.

At the end of the event, the amount on hand at each cash box location should be counted and recorded. Add any amounts previously collected from the location and subtract the amount that booth was given at the beginning of the event. The resulting figure is the total amount taken in by that cash box location. The total of all cash box locations is the "proceeds" of the event.

Keeping track of the cash collected at each booth or entrance can be used in planning for next year and, if appropriate, to let the members who worked each location know what they "made" for the organization. Remember, only collect information you are going to use. Spending a lot of time gathering statistics may be time consuming or annoying and if no one (including you) really cares or can change things, don't waste your time!

One more option to consider is the use of tickets. If you don't want each booth to have the problem of making change, you can sell tickets at one or a few central locations. These tickets are then accepted at each booth instead of cash and only the ticket sellers handle money. If this is done, the booths must be given clear instructions as to whether they accept tickets only, how many for each item sold, etc. They also need to know what to do with tickets received, since these should be controlled as if they were cash.

One advantage to tickets is that they can be torn in half when used. One decision you need to make is whether or not you want to count tickets from each booth at the end of the event. This will determine the type of a receptacle needed to collect the tickets or stubs.

Organizations such as churches or neighborhood groups often feel mutual trust is implicit and may therefore feel uncomfortable with some of these security procedures. However, their purpose is to prevent errors from occurring during the hustle and bustle of a busy event. You and your board of directors must decide what is best for your organization.

Expenses Paid During the Event

Sometimes expenses are paid in cash during the event. The cash should come from the cash held by the treasurer, not from individual cash boxes. Such expenditures require an "invoice" (remember our definition of an invoice includes a handwritten request for payment) showing what goods or services are being paid. Whenever possible, expenses should be paid by check before or after the event.

Reporting

The treasurer (of the organization or of the event) should prepare a report showing proceeds and expenses by category and the net amount raised. This report can follow the format of the treasurer's report described in Chapter 5, except that it would be restricted to one event.

For My Successor

The following are our special cash receipts situations:

Event or Sale Item	Procedure

8

Audit Committee

An organization with a volunteer treasurer and a simple set of accounting records rarely should need the services of a certified public accountant (CPA). However, to strengthen the board of directors' control over finances, they may want to appoint an annual audit committee.

Note: I am using the term "audit" here in a general way. The audit process described in this chapter is not the same as an audit performed by a certified public accountant, which is a much more complex procedure and must be done by someone who is independent of your organization. See Chapter 16, "An Outside Accountant," in Part Two. Large organizations using the services of a CPA also form audit committees whose important function is to serve as liaison between the organization and the CPA.

Such a committee should consist of two or more members who are willing to review the treasurer's records. The audit should be performed as soon as is practical after the end of your organization's fiscal year.

The purpose of an audit committee is to protect both the organization and the treasurer. An audit gives an organization's supporters confidence that financial matters have been properly handled. An annual audit gives the treasurer a feeling of completion of a year's work and protects him/her from criticism from other members. It should never be considered an insult to the treasurer to form an audit committee. After all, **even though the treasurer keeps the books, the financial records belong to the organization.**

How the Audit Committee Works

There are several steps in performing an audit. First, the audit committee should be sure a system exists for keeping track of cash receipts and disbursements. The system need not be complicated, but it should be sufficiently organized and efficient to meet your organization's needs. Also, the system should enable the treasurer to make reports to the board and members.

The audit committee must physically examine the financial records. The things they should check are:

1. Cash receipts

All receipts should be listed by date received, name of payer and reasons for receipt.

The committee should: look at the cash receipts journal.

2. Cash disbursements
All disbursements should be listed by date paid, name of payee and reason for being paid.

The committee should: look at the cash disbursements journal.

Note: Remember that the cash receipts journal and the cash disbursements journal may actually be the checkbook.

3. Paid invoices
All disbursements should be supported by an invoice and these should be filed by paid date or by vendor. The check number and date paid should be written on the invoice.

Remember that an invoice may be a note from a member of the organization listing items to be reimbursed. It does not have to be a formal receipt from a store.

Preferably, all invoices should be approved by someone other than the check signer.

The committee should: examine a sample[1] of the paid invoices to be sure the organization's approval system has been followed. If there are any unusually large dollar items, these should be examined.

4. Cancelled checks
All checks must be signed by the authorized check signer(s).

The committee should: examine the signatures on a sample of cancelled checks. If checks are filed numerically, this can be done easily by fanning the checks and scanning the signatures. Any unusual signature should be questioned. If two signatures are required on checks above a certain amount, make sure this procedure is being followed.

Next, to make sure that all checks are supported by invoices, trace *from* a sample of cancelled checks *to* their supporting invoices. For these same checks, also be sure that the check has been endorsed by the person or organization to whom it was written.

5. Bank accounts
All bank accounts should be reconciled monthly.

The committee should: look at the monthly reconciliation worksheets. It is not necessary to check the arithmetic except on the year-end reconciliation. That should be reviewed in detail.

6. Unpaid bills and amounts due At year end, unpaid bills (invoices) and amounts due the organization (pledges, etc.) should be listed.

The committee should: review the list to be sure it is correct and all inclusive. Check if the bills have been paid and if the amounts receivable have been collected since year end.

7. Salaries and wages[2]

If any salaries or wages are paid, employees earnings records must be maintained. Withheld taxes must be paid and reports filed with the appropriate government agency.

The committee should: check that pay rates are those approved by the board of directors and reflected in the minutes. Look at the copies of the payroll tax returns to be sure they have been completed and filed.

8. Treasurer's report

The numbers in the year-end treasurer's report should be traceable to the cash receipts and disbursements records.

The committee should: check that the year-end totals in the cash receipts and disbursements records agree with the treasurer's report.

9. Government reports[2]

The Federal Form 990 and any reports to state charity regulators should be completed and filed on time.

The committee should: look at a copy of each report/return.

(In Appendix A you will find a worksheet titled "Guidelines for an Audit Committee for an Organization without an Outside Accountant." It is a checklist that follows the sequence of steps just outlined.)

As the audit is being performed, committee members should note any questions they have. These should then be discussed with the treasurer. Any unresolved items should be reported to the board.

Reporting to the Board

After the audit committee has finished its review, a written report should be prepared for the board. A suggested report format is shown in Appendix A.

[1]"Sample" means a representative number of items. It is usually not necessary to look at every item, though any individual large dollar amount item or unusual item should be examined.

[2]Payroll taxes and government reports are discussed in Part Two, Chapter 15

Part Two

The Larger Organization

Please do not stop reading. Someday your organization may grow large enough to have a staff and need an outside accountant. The next several chapters will give more information on financial statements, budgets, cash flow analysis, choosing and using a certified public accountant, and how to get help. Some of these topics go beyond the immediate needs of a "small" organization, but reading these chapters will give you ideas for now as well as an understanding of things you need to prepare for as you grow.

9

Financial Responsibilities of a Board of Directors (Revisited)

The board of directors of any organization, nonprofit or profit-making, is responsible for that organization. In a small organization, board members will often handle some or all of the program, fundraising and administrative duties. In a larger organization, employees carry out the day-to-day activities as envisioned by the board. All boards have three major governance responsibilities:

1. Setting the organization's mission, goals, policies and procedures.
2. Reviewing the organization's activity.
3. Evaluating the organization's performance.

Determining the mission of an organization is very important and must be written down. It may be included in the articles of incorporation and bylaws. It should be reviewed and discussed at least once a year. Otherwise, you may not really know why the board meets or what it is you hope to accomplish. A mission statement should not be changed frequently, but it should be re-examined and changed if necessary.

From the mission statement, which probably is rather idealistic, should flow the goals and objectives of the organization. The objectives should be of fairly short-term orientation and basically answer the question: What are we going to accomplish this year? As managers, the board (with the input of any paid staff) should determine measurable outcomes and clear timeframes. For instance: we will recruit 16 volunteers to run 8 camping trips this year, or we will feed 60 senior citizens each day. Stating that "we will keep the park clean" is not definite enough to help the organization know what needs to be done or if it has been accomplished.

You may be wondering why I am saying all this in a book about accounting. It is because finances do not exist in a vacuum. Unless and until your board knows what activities it wants to undertake in the coming year, the questions of how much money your organization needs and the best ways to handle it are premature. **As treasurer, you have an important responsibility in helping the board see the connection between finances and program.**

Policies and procedures will have to be established by the board and followed by everyone in order to achieve the goals set (how are we going to meet what we said our goals were?). For the small organization, individual board members probably will also be the ones doing the work of the organization. In this situation, they are the "staff" as well as the decision-makers. Procedures are best written by the person who does it (whatever “it” is). But procedures should be reviewed by someone with an overall vision. This probably is the entire board of directors. If nothing else, the board should be sure that its goals are being pursued by policies and procedures that are consistent with the mission of the organization.

Reviewing organizational activity means either having first-hand knowledge of what is happening or getting reports from those who do. This information should be shared monthly or, at a minimum, quarterly, with all board members.

Evaluating organizational performance flows from the review of activities. Are the things that are occurring working towards the goals that were set? Do changes have to be made? Were the goals and objectives too ambitious or too easy? If it is the middle of the year, are we half-way there? If a festival is planned for September, will we be ready? Are our programs being carried out in an efficient and effective way, following the procedures we set to accomplish our goals?

What you have just read is only the tip of the iceberg called “governance.” There are many excellent books and articles devoted to governance and management in general and boards of directors in particular. Therefore it is not my intention to cover everything that you may need to know about running your organization. I encourage you to be aware of the full spectrum of managerial issues, though this book necessarily focuses on finances.

Financial Management

The finances of an organization also require goals, policies, procedures, review and evaluation. If you do not know where your money is coming from (and when) and where your money is going to (and when), you are not in control…and probably headed for problems.

There are two main board activities that address financial goals: preparation and approval of the budget, and ongoing review of financial status.

The board should review the reasonableness of the assumptions used in the preparation of the budget. The board should ensure that the amount needed to be raised can be achieved and that the amount to be spent on each type of expense is a realistic estimate of the cost of providing the desired level of services. We'll go into this in more detail in the chapter on budgeting.

The board should review the current financial status of the organization and be sure that action is taken on a timely basis to correct unfavorable trends. Financial statements are the basic tool for accomplishing this and will be covered in a later chapter.

The board must have a treasurer (you!). As we discussed in Part One, s/he is responsible for making sure that adequate and accurate financial records are maintained. S/he should also participate in developing the budget, prepare the financial statements and be sure all federal, state, and local government and funding source reports are filed.

It is important to reiterate that the election or appointment of a treasurer does not relieve other board members of their fiscal responsibilities. It merely recognizes the practicality of making one person responsible for keeping the books. The board must be sure the treasurer is doing his/her job. This can be accomplished by reading the treasurer's report and asking questions about things that are unclear or seem unusual. Common sense is a good guide.

Part One made the assumption that the volunteer treasurer keeps all the financial records. Part Two assumes a larger organization and the likelihood that there is paid staff that keeps some or all of the financial records. However, even in the largest nonprofit organizations with a very large number of employees, a full accounting department and a national CPA firm, **the treasurer and the board are still responsible for fiscal management.** The accounting department will physically prepare the financial statements, the CPA firm will audit them, but the volunteer treasurer should be able to present the financial statements to the board of directors. It is imperative that the treasurer understands the financial statements.

I repeat: the volunteer treasurer need not be a professional accountant. But s/he must be willing to spend the time to study the financial statements so s/he can answer questions from the other directors, even if there may be some details s/he will ask the staff to explain. My assumption is that all the directors are generally intelligent people who care about the purpose of the organization and together will fulfill their obligations as a board to exercise oversight of the organization's finances.

Accountants

Let's talk a bit about "accountants" and "accounting." When people say, "the accountant will take care of it," they may be referring to any number of people with differing responsibilities related to finances. The person who keeps the books may be called a "bookkeeper." S/he is skilled but generally only maintains financial records, without making decisions regarding finances. As this person is given more responsibility (and probably brings greater education to the job), the title can change to "staff accountant" or "financial officer." When the title becomes "controller," "treasurer," or "vice-president of finance," the person has more authority, with broad responsibility for all aspects of the accounting department. The volunteer treasurer for whom this book is written may function as all of the above!

A certified public accountant (CPA), or chartered accountant (CA) in Canada, is not "part" of the organization. S/he is independent, knowledgeable in accounting, and licensed by the state or province. His/her role is to provide board members, contributors, employees, etc. with independent assurance that the financial systems and financial statements of the organization properly reflect the financial transactions that have taken place.

For My Successor

When discussing the board's financial responsibilities (try to do this at least once a year), remember to make these points:

10

Preparing for Financial Reporting

For-profit companies issue financial statements for use by their current and potential stockholders and to meet other reporting obligations. Nonprofit organizations also must prepare financial statements to meet the needs of various "users."

The first and most important "user" of a nonprofit organization's financial statements is its board of directors. Board members require financial information to assist them in making important decisions on how the organization will be operated and what projects will be undertaken with the available resources. They need to know if the organization is achieving its established financial goals and objectives and they must have timely, accurate information in order to determine if results are significantly different from those planned.

Other possible users of a nonprofit organization's financial statements are:

1) **Contributors,** including individuals, foundations, and businesses, who will use the financial statements to make decisions concerning their contributions. They may be may be interested, for example, in the amount of funds spent on program-related activities versus the amount spent for fundraising and administration. In addition, if their contribution was restricted for a particular program or project, they will want to know that those funds were, in fact, used for that purpose.

2) **Governments,** particularly at the federal and state level, which require the reporting of certain organizational information, including financial data. This includes the Federal Form 990 and reports to state regulatory agencies.

3) **Creditors and potential creditors,** such as banks and other lending institutions, who want to know the level of resources available to meet current and future loans, mortgages, and other obligations.

4) **Others,** such as the beneficiaries of the organization's program or its employees.

Once you have identified the specific user(s) of your financial statements, you can make decisions as to the type and extent of the financial information that should be included. Financial statements prepared for external use are usually prepared in accordance with generally accepted accounting principles promulgated by the American Institute of Certified Public Accountants (AICPA) and the Financial Accounting Standards Board (FASB). These principles, sample financial statements for different types of nonprofit organizations, and a variety of reporting formats are contained in several available guidebooks. References are given in Appendix D.

Basic financial statements will usually include:

- Balance Sheet
- Statement of Activity (Statement of Support, Revenues and Expenses and Changes in Fund Balance)
- Statement of Functional Expenses
- Notes to the Financial Statements
- Depending on your type of organization, one of two additional statements may be needed: Statement of Changes in Financial Position or Statement of Cash Flows

While accountants or certified public accountants frequently prepare the financial statements, the board and staff of the organization are responsible for the information reported and the format of the financial statements presented. The independent accountant's responsibility is to express an opinion on the financial statements based on his/her audit. This opinion indicates whether or not the statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The opinion is that of the independent accountant, but the financial statements belong to the organization and are the responsibility of the organization's management.

Each of the basic financial statements listed above will be explained in a subsequent chapter, but first I need to discuss an important accounting concept: the cash versus accrual basis of accounting.

Cash Versus Accrual

There are two methods of keeping accounting records: cash and accrual.

Many nonprofit organizations (and most of those whose treasurers only read Part One of this book) are on the cash basis. Being on the cash basis means you record transactions only when they affect cash. If someone sends in a donation of $100 in March, it is recorded as income in March. If someone pledges $50 in March but gives you the money in June, it is recorded as income in June, when you receive it.

If you pay $125 for stationery in April, it is recorded as an expense in April. If you order and receive stationery in May, but pay for it in June, it is recorded as an expense in June.

You may be thinking: “well, cash accounting makes sense.” But I suggest this method of accounting may be misleading.

Why? Because consideration of only the cash transactions of a certain period does not give an accurate picture of an organization's financial situation. It does not show bills to be paid nor expected receipts. Such dollar amounts may substantially alter the financial picture.

For example, the Strawberry Festival held on June 23rd rents a tent for $300 (payable on July 6) and takes in $1,400 in cash. At the July 1 board meeting, should the treasurer report income from the Festival of $1,400 (cash deposited) or $1,100 (cash taken in, less the cost of the tent yet to be paid)?

Now let's add another variable. It was agreed that one of the exhibitors at the Festival would pay the booth fee of $600 by July 10. At the July 1 board meeting, should the treasurer report income from the Festival of $1,700 (cash taken in, plus the booth fee to be received, less the cost of the tent yet to be paid)?

If the proceeds of the Strawberry Festival are pledged to a charitable cause, does the board of directors have $1,400 (on the cash basis) or $1,700 (on the accrual basis) to donate?

The cash basis of accounting reflects only the cash receipts and cash disbursements of an organization. The accrual basis, on the other hand, reflects transactions when they happen, not when cash changes hands. As an example, if candy is sold, the sale (income) is recorded in the financial records at the time the candy is delivered to the buyer and an “account receivable” (an amount due from someone else) is also recorded. When a check is received in payment for the candy (in the same or a future month), the account receivable is reduced by the amount received.

As another example, the stationery received in May is recorded as an expense in May, regardless of when it is paid for and an “account payable” is recorded. If the invoice for the stationery is paid in June, the account payable is reduced accordingly (in June). The basic principle is to match income (revenue, donations, etc.) against related expenses. The time when cash is received or expended is not the guiding factor. In the Strawberry Festival example above, I hope it is clear that the accrual basis of accounting is the most accurate and gives the board the best picture of how much money they will be able to donate to their charity: $1,700, which should be available to them on July 10.

Which Is for You?

Accrual accounting is preferable for all organizations, nonprofit or for-profit, large or small, in the preparation of their financial statements. CPAs usually insist on the accrual basis because the cash basis can, and frequently does, present misleading financial information. The accrual basis is one of the elements of what is called “generally accepted accounting principles,” or GAAP.

However, some small organizations use the cash basis of accounting because they rarely have assets other than cash and have no significant “accounts payable.” Therefore, for them, the cash and the accrual bases produce the same results.

Fixed Assets and Depreciation

There is another accrual accounting concept which is very important and needs to be discussed. GAAP requires the recording of fixed assets on an organization's balance sheet and depreciation of those assets over their estimated useful lives.

Stop! Let me define “assets,” “fixed assets,” and “depreciation.”

Assets are anything that an organization owns or has owed to it. This includes cash, inventory, and accounts receivable.

Fixed assets are tangible, long-term assets such as land, buildings, furniture and equipment owned for use, rather than for sale.

Depreciation is systematically charging (over its estimated useful life) the cost of a fixed asset against an organization's income. This process reflects the lost usefulness or expired utility of a fixed asset. Depreciation is a bookkeeping entry, does not represent any cash outlay, and does not imply any accumulation of funds to replace the asset.

Let's look at an example. Your organization purchases a computer system for $3000. In all likelihood, you will pay the $3000 by check shortly after delivery. However, you will expect the computer to serve your organization beyond the current fiscal year. Therefore, showing the $3000 cost of the computer as an expense in the year of purchase would overstate the expenses for that year. If we agree that the computer will be useful for three years, it is more accurate to charge each one of those years with one-third of the cost, showing $1000 as an expense in each year. Through this process the entire cost of the computer is ultimately written off as an expense.

There is no question that depreciation accounting requires recordkeeping. For this reason, in the past many nonprofit organizations took the easier route of showing the cost of fixed assets as an expense in the year acquired. However, to be in accordance with GAAP, if the costs of fixed assets are significant in relation to the budget of an organization, they must be recorded as fixed assets and depreciated.

Fund Accounting

The financial statements of nonprofit organizations are generally prepared on the fund basis of accounting. This means records are maintained for each project that receives contributions designated for that specific project. Reports must be made on each project separately. Each such set of records is called a “fund.”

If all contributions received by an organization are for general operating purposes, there would be only one “fund.” Additional funds are created when grants and donations are received for specific projects. The number and types of funds that are maintained will vary from organization to organization.

It is important to note that it is usually not necessary to keep separate bank accounts or separate books for each fund. What you do need is a system for keeping track of the transactions affecting each fund. I recognize that the terms of some grant agreements may require separate bank accounts, but this is the exception and not the rule.

Fund Balance

We are now going to talk about what is probably the most difficult concept in this book: fund balance. It is an accounting term that is used only in conjunction with nonprofit organizations. Fund balance represents the net amount of resources available for carrying out the objectives of the organization. It is calculated arithmetically: Total Assets less Total Liabilities equals Fund Balance.

Remember, an organization may have several funds. The common ones are: General (operating purposes); Fixed Assets; Restricted (those funds received for specific projects); and Endowments (money given to the organization from which income earned on the amount given can be used, but the actual money cannot be used at all or for a long period of time).

Unrestricted and Restricted Fund Balances

An unrestricted fund balance can be used for any purpose approved by the board of directors that is within the charitable purpose of the organization. A restricted fund balance is one that can only be used for the purpose specified by the donor or grantor. Although the general fund is unrestricted, the board of directors may designate part of the general fund for a specific purpose, such as program expansion. The difference is that a restricted fund balance can only be changed by the donor or grantor or through legal proceedings. A board designation of the general fund can be changed by a future action of the board.

Deferred Income

Deferred income is a type of liability that nonprofit organizations often have. Deferred income is created when an organization receives a grant, membership dues or subscription income in one fiscal period but will use it in a subsequent fiscal period.

For instance, an organization whose year end is December 31 receives a grant in November for a program that will start in February. At December 31, the amount of the grant received is "deferred income." The same organization has members that join throughout the year. The membership income to the organization of a member who joins in May is 7/12ths earned at December 31 and 5/12ths deferred income.

Deferred income is a short- or long-term liability, not part of fund balance. It is, in effect, something the organization owes someone else.

Dollar Value of Volunteers

Every organization using this book benefits from the services of volunteers. You, the volunteer treasurer, are one good example. I believe that volunteer hours should be recorded, valued, and reported. Only by doing this can you determine the true cost of the services performed by your organization. Knowing this total dollar value can help you in fundraising by showing funders the amount of community support for your program.

The rationale for and the process of valuing volunteer contributions of time are beyond the scope of this book. However, these are explained more fully in another book, *From the Top Down: The Executive Role in Volunteer Program Success*, by Susan J. Ellis, Philadelphia: Energize, Inc., 1996.

11

The Financial Records (Revisited)

In Chapter 4, I suggested that small organizations may be able to keep all needed financial information in their checkbook. The next level of recordkeeping is the cash receipts and cash disbursements journals. But a larger organization will probably need additional journals or ledgers to maintain its financial records.

At this point, our discussion could get very complex. Instead, I am going to describe briefly some of these additional accounting records. That way you will know they exist. You may be able to set them up yourself, but I suggest this is when you might want to consider professional accounting assistance (see Chapter 17 on "How to Get Help"). Once the systemis set up, you may be able to maintain it yourself. You may then need an accountant's help only at year end or you may be ready to purchase ongoing accounting services (as staff or on a consulting basis).

Payroll Journal

If you have employees, you must keep a record of gross salaries or wages less applicable payroll taxes or other deductions and the amount paid. A payroll journal records this information and enables you to prepare the various payroll tax returns that are required.

Easy to use payroll books can be purchased in most office supply stores. There are ones available for even small numbers of employees. This is another area for which accounting software can be very helpful.

General Ledger

A general ledger provides a systematic way to keep track of additions to and subtractions from each different "account" and to determine a balance at any point in time. An account is a record of the transactions in a specific category such as cash, equipment, accounts payable, contributions, postage or telephone. The information entered in the general ledger comes from the other accounting records you are keeping and serves to summarize that information.

A general ledger is almost always divided into sections for: Assets; Liabilities; Revenue and Support; and Expenses. Under each will be a page for every specific account, with columns headed "debit," "credit," and "balance."

I am sure you have heard the terms "debit" and "credit." These are the accounting terms used to indicate columns in journals and ledgers. These affect assets, liabilities, revenue and support, and expense accounts differently.

General Journal

There are some transactions that do not affect cash and cannot be entered through the cash receipts or cash disbursements journals. A "general journal" is used for this purpose. Another use is to record adjusting entries.

Had Enough?

This is the line of demarcation between my giving you information and my trying to teach you accounting. Since the latter is not my goal, when you are ready to set up a general ledger or use a general journal, I suggest you purchase a basic accounting textbook and/or talk with an accountant.

12

Basic Financial Statements

Let us now consider each of the "basic financial statements."

Balance Sheet

The balance sheet summarizes the assets, liabilities, and fund balances of an organization. It is a "snapshot" at a specific point in time, presenting the financial position of an organization on a specific date.

The assets (cash, receivables, fixed assets, etc.) and the liabilities (accounts payable, loans payable, etc.) should be classified on the balance sheet as to current and long-term. "Current" means the asset is available for use, or the liability is payable, within one year. "Long-term" means more than one year.

"Fund Balance" represents the net amount of resources available for carrying out the objectives of the organization. As we said before, the arithmetic calculation is: Total Assets less Total Liabilities equals Fund Balance.

Statement of Activity

This statement is usually known as a "statement of support, revenue and expenses, and changes in fund balance." The statement summarizes the revenue and expenses for the period and includes a reconciliation of the fund balance at the beginning and the end of the period. This statement can be presented in several different formats, but should identify:

- Major sources of revenue and support
- Restricted revenue and related expenses
- Expenses by the following categories: program, fundraising, and general and administration

  "Program" includes all expenses made to carry out the charitable purposes for which the organization has been formed. "Fundraising" includes all expenses needed to raise funds. "General and administration" covers the expenses of the necessary administrative functions. There will be expense items that will need to be allocated among these three categories.

- The excess (deficiency) of revenue over expenses

  This is what we think of as "net income (loss)." However, nonprofits do not use this term because traditionally it has implied a for-profit enterprise. Instead nonprofits use the more cumbersome wording: "excess (deficiency) of revenue over expenses."

Statement of Functional Expenses

The statement of functional expenses is prepared for the same period as the statement of activity. It shows expenses by item (such as salaries, rent, telephone) for program, fundraising, and general and administration. Under "program," there should be a separate column for each major activity area. For certain types of nonprofit organizations, it may be considered acceptable to include this information in the statement of activity.

Notes to the Financial Statements

Almost all financial statements will have some notes to them. These are important and users of financial statements should always read the footnotes. Examples of notes are:

1. General information about the organization.
2. A summary of significant accounting policies.
3. Separate explanations of any important facts, such as if assets are pledged against a bank loan, if any property is leased and future lease obligations, any pension plans and future payments required, etc.

The next five pages are a set of financial statements for Hometown Agency. The first page is the independent auditor's report, described in more detail in Chapter 16.

JANE ACCOUNTANT
Certified Public Accountant

Board of Directors
Hometown Agency
Some Street
Ellis City, PA 19144

Independent Auditor's Report

I have audited the accompanying balance sheet of Hometown Agency as of December 31, 19X2, and the related statements of support, revenue and expenses for the year then eneded. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, financial statements. An auidt also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in a material respects, the financial position of Hometown Agency as of December 31, 19X2, and the results of its operations and changes in fund balances for the year ended in conformity with generally accepted accounting principles.

Jane Accountant
Jane Accountant

May 4, 19X3

HOMETOWN AGENCY
Balance Sheets
December 31, 19x2 and 19x1

	19x2	19x1
Current Fund		
Assets		
Cash	$ 70,924	$ 58,413
Grant receivable		12,000
Total Assets	$ 70,924	$ 70,413
Liabilities and Fund Balances		
Accounts payable	$ 15,419	$ 17,827
Fund balances:		
Restricted	10,267	9,419
Unrestricted	45,238	43,167
Total fund balances	55,505	52,586
Total liabilities and fund balances	$ 70,924	$ 70,413
Equipment Fund		
Assets		
Furniture and equipment, at cost	$ 40,921	$ 40,921
Less accumulated depreciation	28,162	27,423
Total assets	12,759	13,498
Fund Balance		
Fund Balance	$ 12,759	$ 13,498

See Notes to Financial Statements

HOMETOWN AGENCY
Statement of Support, Revenue and Expenses
and Changes in Fund Balances
for the Year Ended December 31, 19X2
with Comparative Totals for 19X1

	Current Fund		Equipment	Total—All Funds	
	Unrestricted	Restricted	Fund	19X2	19X1
Public Support:					
Contributions	$ 45,765			$ 45,765	$ 42,215
Foundations	25,000	$ 2,000		27,000	26,000
Government	23,000			23,500	23,500
United Way	35,000			35,000	32,500
Total	129,265	2,000		131,265	124,215
Revenue:					
Membership dues	8,727			8,727	8,116
Investment Income	1,423			1,423	1,581
Miscellaneous	3,097			3,097	2,359
Total	13,247			13,247	12,056
Total support and revenue	142,512	2,000		144,512	136,271
Expenses:					
Program services	87,037	1,152	$ 739	88,928	84,973
Management and general	33,423			33,423	29,894
Fund raising	19,981			19,981	17,539
Total expenses	140,441	1,152	739	142,332	132,406
Excess (deficiency) of support and revenue over expenses	2,071	848	(739)	2,180	3,865
Fund balances, beginning	43,167	9,419	13,498	66,084	92,219
	$45,238	$10,267	$12,759	$68,264	$66,084

See Notes to Financial Statements

HOMETOWN AGENCY
Statement of Functional Expenses
for the Year Ended December 31, 19X2
with Comparative Totals for 19X1

	Unrestricted				Total—All Funds	
	Program Services	Management and general	Fund Raising	Restricted	19X2	19X1
Salaries	$ 53,098	$ 21,990	$ 15,659		$ 90,747	$ 84,612
Payroll taxes & benefits	11,266	4,959	3,506		19,731	17,873
Rent	11,033	2,802			13,835	13,001
Electricity	1,417	471			1,888	1,762
Office supplies	1,076	416			1,492	914
Equipment Rental	897	615			1,512	1,393
Telephone	2,743	938			3,681	2,992
Postage	1,682	214	816		2,712	3,043
Travel	1,962				1,962	1,684
Staff development	687	206	1,152	$ 1,152	2,045	1,474
Professional fees		500			500	450
Insurance	934	312			1,246	872
Miscellaneous	242				242	1,597
Total expenses before depreciation	87,037	33,423	19,981	1,152	141,593	131,667
Depreciation of furniture and equipment	739				739	739
Total expenses	$ 87,776	$ 33,423	$ 19,981	$ 1,152	$ 142,332	$ 132,406

See Notes to Financial Statements

HOMETOWN AGENCY
Notes to Financial Statements
December 31, l9X2

Note 1 - Nature of Organization

Hometown Agency was founded in 19XX to provide needed "specific" services to the community.

Note 2 - Summary of Significant Accounting Policies

Support and Revenue

Support and revenue are accounted for on the accrual basis of accounting and are considered to be available for general operations unless specifically restricted by the donor. Restricted funds are deemed to be earned and reported as revenue when the organization has incurred expenditures in compliance with the specific restrictions imposed by the grantor or donor.

Expenses

The costs of the various programs and other activities have been summarized on a functional basis in the statement of support, revenue and expenses and changes in fund balances. Expenses are accounted for on the accrual basis of accounting.

Furniture and Equipment and Depreciation

Furniture and equipment are recorded at cost when purchased and at current market value at the date of contribution, when contributed. Depreciation is provided on the straight-line method over the estimated useful lives (principally five years) of the assets.

Income Tax Status

Hometown Agency is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Comparative Information

Fund totals for 19X1 are included for comparative purposes only, and are not intended to present financial position, results of operations and changes in fund balances in conformity with generally accepted accounting principles.

Note 3 - Lease Commitment

Hometown Agency leases its office space on a year-to-year basis. For the year ended December 31, 19X2, the annual cost was approximately $14,000.

Statement of Changes in Financial Position/ Statement of Cash Flows

One of two additional financial statements may also be needed: “statement of changes in financial position” or “statement of cash flows.” However, what is required is currently under discussion in accounting circles.

Both statements show, in different formats, a summary of the organization's available resources and their use during the same period as the statement of activity. This helps the user assess the organization's ability to generate cash and its ability to meet its obligations. Examples of both statements are shown on pages 70 and 71.

As of the writing of this book, voluntary health and welfare organizations do not have to include either statement in their “basic financial statements.” Most other nonprofit organizations must include a statement of changes in financial position. A statement of cash flows is now required for for-profit businesses. There is a growing sentiment among accountants that this statement also would be useful for nonprofit organizations and I therefore anticipate that a statement of cash flows will be required for all nonprofit organizations in the future.

Additional Information

Thus far, we have discussed the basic financial statements. An organization may provide any additional information it considers meaningful to the users of its financial statements. Examples of additional information include:

- Comparison of budgeted revenue with actual revenue
- Comparison of budgeted expenses with actual expenses
- Schedule of investments
- Schedule of endowment fund balances

Period

As you probably noted, each financial statement above is prepared as of a date or for a “period.” The usual period is one year and the date is the last day of the year, such as: “the year ended June 30, 19XX” and “as of June 30, 19XX.”

But “year” can mean many things to a nonprofit organization. First, of course, there is the **calendar year** from January 1 to December 31.

Second, there is the **program year** which covers the months of active meetings. For many nonprofit organizations, this is September through June, with no meetings in the summer months.

Third, there is the **administrative year** which covers the period during which the officers' terms run or from one annual meeting to the next.

Fourth, there is the fiscal year which is the period which ends with the date of the annual report. This is usually twelve months and ends on the last day of a month.

Fifth, there is the **membership year**, or the period during which a member remains in good standing on the basis of payment of one year's dues.

And sixth, there is the **budget year**, the period for which income and expenses are planned.

All or some of these "years" may be the same. The fiscal year and the budget year must be the same. The other years—program, administrative and membership—may vary depending upon your organization's needs and traditions.

From a financial view, we will only be concerned with the fiscal and budget year.

Interim Financial Statements

Thus far in this chapter, our discussion of financial statements has concentrated on external ones (those prepared for use by people outside of your organization). Since these statements are usually prepared only on an annual basis, the board and management of the organization will usually requireinterim financial statements to assist them in managing the organization throughout the year. These statements are usually prepared monthly (but should be prepared at least quarterly) and include more detail of the revenue and expenses than the annual financial statements. In addition, interim statements should include information that compares the actual revenue and expenses of the period with the amounts budgeted.

This gives the board and management a better understanding of how the organization is doing compared to plan.

The interim financial statements should be prepared on the same basis of accounting (accrual basis) as the annual financial statements. This will reduce the need for reconciliation between the annual statements and the interim statements. The treasurer's report (balance sheet and statement of income and expenses) presented in Chapter 14 is an example of interim financial statements.

HOMETOWN AGENCY
Statement of Changes in Financial Position
for the Year Ended December 31, 19X2
with Comparative Totals for 19X1

	Operating Funds	Equipment Fund	Total—All Funds 19X2	Total—All Funds 19X1
Sources of cash:				
Excess (deficiency) of suport and revenue over expenses	$ 2,919	$ (739)	$ 2,919	$ 3,865
Add-back of items not requiring cash—depreciation		739	739	739
Cash provided by (used in) operations	2,919	—	2,919	4,604
Decrease in grant receivable	12,000		12,000	2,000
Total sources of cash	14,919	—	14,919	6,604
Uses of cash—decrease in accounts payable	2,408	—	2,408	1,876
Increase in cash	12,511	—	12,511	4,728
Cash, beginning of year	58,413	—	58,413	53,685
Cash, end of year	$ 70,924	$ —	$ 70,924	$ 58,413

See Notes to Financial Statements.

HOMETOWN AGENCY
Statement of Cash Flows
for the Year Ended December 31, 19X2
Increase (Decrease) in Cash

	Operating Funds	Equipment Fund	Total All Funds
Cash flows from Operating Activities:			
Cash received from public support	$ 143,265		$ 143,265
Cash received from revenue earned	11,824		11,824
Cash paid to suppliers and employees	(144,001)		(144,001)
Interest received	1,423		1,423
Net cash provided by (used in) operating activities	12,511		12,511
Cash at beginning of year	58,413		58,413
Cash at end of year	$ 70,924		$ 70,924
Reconciliation of excess (deficiency) of support and revenue over expenses to net cash provided:			
Excess (deficiency) of support and revenue over expenses	$ 2,919	$ (739)	$ 2,180
Adjustment to reconcile excess (deficiency) of support and revenue over expenses to net cash provided by operating activities:			
Depreciation		739	739
Decrease in grant receivable	120,000		12,000
Decrease in accounts payable	(2,408)		(2,408)
Total adjustments	9,592	739	10,331
Net cash provided by (used in) operating activities	$ 12,511	$ —	$ 12,511

See Notes to Financial Statements

For My Successor

Our annual financial statements include:

- ☐ balance sheet
- ☐ statement of activity
- ☐ statement of functional expenses
- ☐ statement of changes in financial position
- ☐ statement of cash flows
- ☐ notes to the financial statements
- ☐ ______________________________
- ☐ ______________________________

Important dates to us are:

calendar year: January 1 to December31

program year: ______________________________

administrative year: ______________________________

fiscal year: ______________________________

membership year: ______________________________

budget year: ______________________________

13

Budgeting

An operating budget is the most useful management tool that the board of directors will develop. The budget should be prepared and adopted by the board prior to the beginning of each fiscal year and should include the revenue that the organization expects to earn during the year and the expenses it expects to incur.

The value of having a budget is using it. On a monthly or quarterly basis, the treasurer should present to the board a report which compares actual revenues and expenses to those budgeted. This report should also include an explanation of significant variances from the original budget.

A budget is an estimate, usually prepared two to three months before the fiscal year begins. It is to be expected that events and their effect on finances will not occur exactly as predicted. Major variances in revenues and expenses should be examined, explained and understood. In this way, a board can make decisions about the operations of the organization. Any corrective actions should be taken as soon as possible. It is through this process that an organization's finances and their effect on operations are "managed."

Preparing the Budget

A budget is usually prepared for a one-year period. It should be discussed and approved before the year starts. For a calendar year organization, the budget probably would be prepared in October or November of the preceding year.

The budget should be developed by a small committee of board members, including the treasurer. It is the treasurer who has been working with the dollar figures all year and therefore has the greatest familiarity with the revenues and expenses of the preceding fiscal year and with the results to date of the current year (the year you are still in the midst of). In a small organization, this entire "committee" may be the treasurer, but s/he must consult with officers and committee chairs to be certain that all projected income and expense items are taken into consideration.

The steps in preparing the budget are:

Step 1: Review the mission statement of the organization.

Have there been any significant changes? What are the specific goals and objectives to be accomplished over the next year? Avoid philosophy and generalizations in expressing these goals. What programs need to be carried out to meet the coming year's goals and objectives?

Step 2: Decide how much each organizational activity will cost.

What will be the expenses next year? For a recurring activity, use experience as a guide. (Note that "activity" includes program, fund-raising, and general and administration.) You should have available the dollar figures from preceding fiscal years as well as an estimate for the current year (this would include actual costs to date plus an estimate for the balance of the year). For a new program, estimate costs by asking advice from someone who has done something similar. Be realistic!

Step 3: Decide how much money can be raised.

What sources of funds can be expected? Again, use prior experience as a guide. Consider any special one-time contributions. Those in the past may not be repeated and new ones expected in the future should be taken into account. Be realistic!

Step 4: Compare expenses to revenues.

This is the crucial step in the budgeting process. If, as is often the case, projected expenses exceed expected revenues, judgements must be made to decide what to do. It may be necessary to reduce expenses. Or it may be possible to increase fundraising activities. This is the most difficult decision point. Do not give in to the tendency to "balance the budget" by increasing the projected revenues on paper. Think about what are your reasonable expectations. The economic trends of the community need to be considered. If yours is a membership organization, has membership been increasing or decreasing? Make decisions not on what you hope will occur, but on past experience and on realistic plans for the future.

Step 5: Based on these considerations, revise the expenses and revenues to produce your final budget.

Clearly this process may require moving back and forth between desired programs and a realistic projection of finances.

Additional Considerations

In all likelihood there will be some funds remaining at the end of the current fiscal year. Next year's resources will therefore include anticipated revenues plus this year's ending cash and any investments that are available for operating purposes. Take these assets into consideration in planning. These are your "margin of error" to cover your organization in the time between the occurrence of an unexpected event and the ability to take corrective action. With such reserves, you can take greater risks in expanding or doing something new.

Some organizations face the difficult question: How large should reserves be? The answer to this question can vary considerably depending upon the size of your budget. You need enough so that money is available to cover necessary expenses when cash flow is inadequate. However, the maximum amount needed by any organization should not ordinarily exceed one to one-and-a-half times the immediate preceding year's total operating expenses.

If no reserves exist, you may need to be more cautious in your planning. Are you protected if your projections are wrong?

Another thing to consider is that the yearly budget must be broken down into the same time periods as treasurer's reports will be made to the board of directors. Assuming monthly reports, there should be a budget for each month. But the dollar amounts estimated for each line item should not be simply the yearly budget divided by twelve. They should instead be a genuine estimate for each month. Past experience should be the guideline as to how to allocate the yearly budget over each of the twelve months.

For instance, contributions may be the yearly total divided by twelve, but foundation grants and proceeds from a special event should be shown in the months they are expected to be received. Similarly, expenses such as rent and telephone do in fact repeat monthly and therefore can be calculated by dividing the yearly total by twelve. Other expenses such as insurance premiums, professional fees, or publication of a membership directory should be shown only in the months in which they are expected to occur.

Budget Approval

The final budget must be approved by the full board of directors. They should review the mission statement, the goals, and the assumptions made. **When they approve the budget, they are accepting the responsibility to raise these funds and oversee these expenditures during the next year.**

Once the budget is approved, it should not be "put away until next year." It should be compared regularly with actual results and adjustments should be made as necessary. The next chapter discusses the treasurer's report and this process. Remember the budget is only a guide. It was approved two or three months before the budget year began and had to be a forecast. Revenues may not come in as expected. They may be received in a different month or not materialize at all. Or you may receive an unexpected bequest. Expenses that are budgeted do not have to be spent. On the other hand, you may overspend in a particular expense category or a non-budgeted item can be purchased. If significant changes are made (additions or deletions), they should be approved by the board and noted in the minutes. This results in a "revised budget."

Cash Budget

What has just been described above results in an "operating budget" that estimates revenues and expenses for the year. If the organization maintains its financial records on the accrual basis, the operating budget should also be prepared on the accrual basis.

However, on a practical level, the actual flow of cash is of daily importance to an organization. Because revenues may not be received in the same month they are earned and expenses may not be paid in the same month they are incurred, it is necessary to prepare a "cash budget," sometimes called a cash flow analysis. This budget forecasts cash balances on a month-to-month basis.

You start with the cash available at the beginning of a month, add the anticipated receipts for the month, and subtract the anticipated disbursements for the month. The result is the cash balance at the end of the month. This statement will assist your organization in planning its investment possibilities and borrowing needs.

If your organization operates only on the cash basis, the operating budget and cash budget are one and the same.

Capital Budget

Organizations that are planning major, long-term capital (fixed assets) projects in the near future should prepare a "capital budget." This budget lists, for each project that is expected to be undertaken in the next three to five years, the anticipated start and completion dates, the estimated cost, and the expected method of financing. This analysis will help the board and management in planning and providing adequate funds for each capital project.

For a small organization, a capital budget is not likely to be needed. When a capital budget is appropriate, its funding is usually separate from the annual operating budget.

For My Successor

This is the process we use in developing our budget:

14

The Treasurer's Report (Revisited)

In Chapter 5, I presented and discussed a simple treasurer's report for Sincere Society. Let me now present the same report, but with additional information that makes it more meaningful—see page 78. Keep in mind that Sincere Society's fiscal year ends December 31.

There is a change in the format of the report. For one thing, my example is now headed "Statement of Income and Expenses." For another, I have added additional columns.

Let's discuss each column:

> Column 1: "Month of *October*—Budget" shows the budgeted amounts for the month of October only. Remember the discussion in the chapter on budgets: the monthly budget should not automatically be one-twelfth the annual budget.
>
> Column 2: "Month of *October*—Actual" shows the actual income and expenses for the month of October only.
>
> Columns 3 to 5: There are three columns headed "10 Months Ended *October* 30." "Budget" and "Actual" are, respectively, the total of the budgets for the first ten months and the actual income and expenses for the same time period. The "(Over) Under" column is, by line item, the budget amount less the actual amount. If the result is a minus figure, the number is placed in parentheses in the "(Over)Under" column.
>
> Column 6: "Budget-12-31-XX" is the budget for the entire fiscal year.

One thing that must be remembered is that a number in column 5 that appears in parentheses indicates an opposite situation for income than for expenses. For *income* an "(over)" amount is probably "good," if it means that more income was received than expected. An "under" amount is "bad" because less income was received. However, for *expenses*, an "(over)" is probably "bad" because more money was spent than was budgeted. Conversely, an "under" amount is "good" because less was spent. While this is confusing at first, the interpretation of this column is the most important aspect of the treasurer's report.

Note that there are footnotes which explain significant amounts in the (over)under column. In accounting jargon, such amounts are called "variances." For information purposes, the footnotes can also list any significant accounts payable.

Sincere Society

Statement of Income and Expenses

for the *10* months ended *October 31, 19xx*

	1	2	3	4	5	6
	Month of *October*		-- *10* months ended *October 31* -----			Budget
					(over)	12-31-xx
	Budget	Actual	Budget	Actual	under	
Income:						
Contributions	$ 2250	$ 3080	$ 11000	$ 8974	$ 2026 (2)	$ 14,000
Proceeds-dance	1000	1219	1000	1219	(219)	1,000
Other	150	123	450	420	30	600
Total	3400	4422	12450	10613	1837	15,600
Expenses:						
Dance	1000	1462	1000	1621	(621) (3)	1,000
Telephone	250	229	2500	2367	133	3,000
Copying	150	120	1500	916	584 (4)	1,800
Postage	200	156	2000	1895	105	2,400
Stationery	200	142	1200	1222	(22)	2,400
Other	50	112	500	241	259	600
Insurance						1,200
Directory				662	(662) (1)	800
Total	1850	2221	8700	8924	(224)	13,200
Excess(deficiency) income over expenses	1550	2201	3750	1689	2061	2,400
Cash, beginning	6200	6800	7000	7312	(312)	7,000
Cash, ending	$ 7750	$ 9001	$ 10750	$ 9001	$ 1749	$ 9,400

Significant (over)under items

1. We printed the members directory in September, rather than December
2. Contributions are only 81% of budget. Most of this is due to the $1500 Woods Corp. did not give us in June as they have in the past
3. We asked the band to play an extra 2 hours (Cost $320)
4. Copies have been made for us by Woods Corp., since they could not make a cash contribution.

Accounts payable:

no significant payables on hand

Susan Jones, Treasurer

November 11, 19xx

Modifications

If you feel there are too many columns for your board's monthly needs, let me suggest the order in which you might leave out columns. The least important column is the yearly budget (column 6). This column is provided for information only to remind people of the full year's projections.

The current month's figures (columns 1 and 2) are useful but it is not likely one month's results will cause the organization to change its program or fundraising activities. In fact, it probably should not. But several months may produce a trend that suggests change needs to be considered. That is why the year-to-date figures (columns 3, 4, and 5) are the most critical to present on each report.

Too often treasurers leave out the (over)under column. But not showing the variances and explanations reduces the information shared with other members. It limits the facts available for decision making. Questions should still be asked by alert members, but some probably will be missed. The treasurer's job is to expose financial information, not cover it up.

My full suggested format presents the organization's financial information, shows the actual results versus the amounts budgeted, and explains in the footnotes why the variances occurred. A member, even one not present at the meeting, should be able to understand the organization's financial status as of the date of the report. That is the ultimate purpose of the treasurer's report.

Making It Easy

If you are keeping your financial records manually, here is a suggestion that will help reduce some of the work in preparing the treasurer's report. For the statement of income and expenses, all the income and expense lines, the column headings, and the budget for the year (column 6) remain the same for each report during the year. The only changes are the identifying data at the top and the dollar amounts for the period. Therefore, you can prepare a form that you can photocopy to use in preparing each of your reports. Leave a few blank lines for new, unbudgeted items that may appear during the year. To remind yourself of the identifying data you will need to insert, it helps to underline the blank spaces as I did on page 78. The same concept can be applied to the balance sheet. Note that a handwritten report prepared on lined accounting paper is sufficient for many organizations. Readability should be the criterion, not formality.

If you are using financial software, you can produce all sorts of reports easily. Even a spreadsheet program such as Microsoft Excel® will work to format treasurer's reports.

Hometown Agency Treasurer's Report

Remember that Sincere Society is a small organization and uses the cash basis of accounting. Hometown Agency, on the other had, is large enough to use the accrual basis. Therefore its treasurer's report will look like the one on the next three pages. It adds a balance sheet to the statement of income and expenses. You may recognize the statement of income and expenses as what is called a "statement of support, revenue and expenses and changes in fund balances" in Chapter 12. The latter is its correct name, but the former is what most people call it and, frequently, informal interim financial statements use "statement of income and expenses."

HOMETOWN AGENCY
Balance Sheet
Current Fund
October 31, 19X2

Assets	
Cash	$62,816
Grant receivable	8,000
Prepaid insurance	400
Total assets	71,216
Liabilities and Fund Balances	
Accounts payable	17,561
Fund balances:	
Restricted	9,683
Unrestricted	43,972
Total fund balances	53,655
Total liabilities and fund balances	$71,216

HOMETOWN AGENCY
Statement of Income and Expenses
Unrestricted Current Fund
for the Months ended October 31, 19X2

	Month of October		10 months ended October 31			Budget
	Budget	Actual	Budget	Actual	(over) under	12-31-X2
Income:						
Contributions	$ 5,000	$ 3,215	$ 40,000	$ 36,818	$ 3,182 A	$ 48,000
Foundations	—	1,000	15,000	20,000	(5,000)B	30,000
Government	2,000	1,958	25,000	20,000	5,000 C	25,000
United Way	3,000	2,917	29,000	29,000	—	35,000
Membership dues	1,500	1,478	10,000	8,378	1,622 D	8,000
Investment income	100	96	1,000	1,081	(81)	1,000
Miscellaneous	100	102	2,500	2,624	(124)	1,250
Total	11,700	10,766	122,500	117,901	4,599	148,250
Expenses:						
Salaries	8,000	7,213	80,000	75,230	4,770 E	95,000
Payroll taxes & benefits	17,000	1,522	17,000	16,376	624	20,000
Rent	1,150	1,157	11,500	11,483	17	14,000
Electricity	150	141	1,600	1,624	(24)	2,000
Office supplies	120	216	1,200	1,129	71	1,500
Equipment rental	120	151	1,200	1,257	(57)	1,500
Telephone	250	463	2,500	3,186	(686)F	3,000
Postage	150	161	1,600	2,251	(651)G	2,000
Travel	150	203	1,400	1,737	(337)H	2,000
Staff development	—	—	800	748	52	1,000
Professional Fees	—	—	—	100	(100)	1,000
Insurance	100	105	750	1,160	(410) I	1,000
Miscellaneous	50	12	400	202	198	500
Depreciation	60	62	600	613	(13)	750
Total	12,000	11,406	120,550	117,096	3,454	145,250
Excess (deficiency) of income over expenses	(300)	(640)	1,950	805	1,145	3,000
Fund Balance, beginning	41,050	44,612	38,800	43,167	(4,367)	40,000
Fund Balance, ending	$ 40,750	$ 43,972	$ 40,750	$ 43,972	$(3,222)	$ 43,000

See explanations on the following page.

HOMETOWN AGENCY
Explanations of Significant Variances
on Income and Expenses
October 31, 19X2

A. Contributions are lower than budgeted mainly because the fund raising letters scheduled for October were delayed until November.

B. Grant from Nelson Foundation ($5,000) in May is a new one and was not included in the budget.

C. Grant from the County was $5,000 less than anticipated.

D. Letter not sent in October—see A, above

E. Salaries are under budget due to director's assistant's position being unfilled for 4 months.

F. Telephone—no explanation—has been high for the last 3 months, the director is checking on why.

G. Postage is over budget because of increased rates. With the fund raising letter to be mailed in November (see A and D) postage will probably be $900–1400 over for year.

H. Travel is over because trip scheduled for December was moved up to September.

I. Insurance is over due to a premium increase.

Dale Crescent
Dale Crescent, Treasurer
November 19, 19X2

15

Government Reporting Requirements

For better or worse, nonprofit organizations are regulated by government. The federal government and many states and provinces require nonprofit organizations to register annually and to provide financial information. Since other people's money is being raised and spent, and since organizations that are tax exempt for federal purposes are usually tax exempt for state/provincial purposes also, these compliance requirements do not seem unreasonable.

In addition, if your organization is funded by a foundation or a federated fundraising agency such as United Way, additional reports may be required to accompany your financial statements. Of course, these will be specific to each funding source.

Tax Exemption

The first thing to understand is what “tax exempt” means. It is limited to meaning that an organization does not have to pay (is “exempt from”) income tax on its net income. The phrase “tax exempt” is frequently misinterpreted as meaning exempt from any and all taxes. This is not correct; each type of tax needs to be considered separately and may be applicable.

The exemption from income tax in the United States is available to many types of nonprofit organizations—human service agencies, schools, colleges, civic associations, social clubs, business associations, labor unions, cemetery companies, veterans associations, etc. All of these are described in section 501(c) of the Internal Revenue Code. To apply for this exemption, you must complete and file specific government forms with the Internal Revenue Service. An accountant or lawyer can be helpful in completing these.

Depending on the nature of your organization, you will apply for exemption under a particular subsection of 501(c). For example, labor unions are designated as 501(c)(5) and social clubs are 501(c)(7). The exemption category that is of special importance is 501 (c)(3). To be a 501(c)(3), an organization must be organized and operated exclusively for one or more of the following purposes: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, or the prevention of cruelty to animals or children.

As a 501(c)(3), an organization is not only exempt from paying federal income tax but can tell donors that contributions to it are “tax deductible.” This means that individuals can include charitable contributions to that organization as an itemized deduction on their individual personal income tax returns. Also, many foundations and corporations make grants only to 501 (c)(3) organizations.

In Canada, to become a "registered charity," an organization applies to Revenue Canada.

Form 990

The United States government requires a Form 990, "Return of Organization Exempt From Income Tax," each year from most nonprofit organizations. A sample Form 990 for Hometown Agency is shown in Appendix B.

The responsibility for filing is on your shoulders, even if you do not receive paperwork in the mail. The good news is that, provided you're a nonprofit and doing things correctly, you won't owe anything. This just involves reporting, not paying. The form is due by the 15th day of the fifth month after the close of your fiscal year. if your fiscal year (check your incorporation or nonprofit paperwork) ends on June 30, then your 990 would be due by November 15th.

State Regulations

Many states have a regulatory agency, often in the Secretary of State's or Attorney General's office, that requires registration by nonprofit organizations. Yearly reports are required. Many states accept the Federal Form 990 as all or a substantial part of their financial information requirements. However, most do ask for some additional information.

To determine the requirements of your state, contact either your Secretary of State or Attorney General.

As with all federal and state government forms, there are lots of rules. However, for the size of organization for which this book is principally written, compliance should be relatively easy.

Canada

The Canadian government requires the annual filing of form T3010, "Registered Charity Information Return and Public Information Return," from every registered charity. Provinces have their own reporting requirements.

Other Taxes

Nonprofit organizations are not automatically exempt from sales tax in most states. In some states, this exemption can be requested and, depending on the specific circumstances, it may be granted. The same is true of real estate taxes. Often property owned by nonprofit organizations is exempt. But many jurisdictions now tax some or all property of a nonprofit organization, depending on use and other factors. The applicability of both sales and real estate taxes needs to be checked for your specific municipality, county and state.

Almost all payroll taxes do apply to people who work for nonprofit organizations. Anyone who works as an employee is subject to federal income tax withholding and Social Security (FICA) taxes. Also, state and local income and unemployment taxes usually apply.

From the organization's side, the employer's portion of the Social Security tax and most state unemployment taxes must be paid. The federal unemployment tax does not apply to 501 (c)(3) organizations; it does apply to the other 501(c) categories.

Not all people providing a paid service to your organization are employees. Some may be independent business people (not incorporated), such as trainers, CPAs, or office cleaners. Although you are not required to pay payroll taxes for such people, if any individual is paid more than $600 per calendar year, you must prepare a Federal Form 1099 to report this to the government. Some municipal and state governments have a similar reporting requirement.

One last tax-related subject that is very important to nonprofit organizations is "unrelated business income tax," which you may see referred to as "UBIT." UBIT, as defined by the Internal Revenue Code, is a tax on "income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational or other purpose constituting the basis for its exemption." The rules and regulations concerning UBIT require professional interpretation for each situation.

The tax area gets more complicated as an organization gets larger. But for many nonprofit organizations, particularly those that do not need the services of a CPA for any other reason, the volunteer treasurer can meet all the necessary government requirements.

Between the federal governments in Washington and Ottawa, and the legislatures of the fifty states and the ten provinces, tax law has as many variations as are possible! This book is not meant to be a tax guide and if you have any questions concerning taxes I recommend discussing these with a professional tax consultant.

Use the Web

As you might expect, tax laws change and new regulations appear regularly. The basic information here remains correct, but you should get the most current government forms and instructions. In the US get federal information at **www.irs.gov** Revenue Canada is now called the Canadian Customs and Revenue Agency (CCRA): **www.ccra-adrc.gc.ca/menu-e.html**.

For My Successor

These are the government forms we file:

Form Title	Sent To	Due Date

These are the taxes we pay:

Type	Sent To	Due Date

16

An Outside Accountant

In Chapter 9, I explained the differences between a "bookkeeper," an "accountant," and a "CPA." Let's assume your organization has grown beyond the point that it is reasonable to expect a volunteer treasurer to handle all of the financial recordkeeping. That point will vary depending upon circumstances. However, the number of transactions that take place is probably more important than the dollar volume. A large number of receipts, payments made several restricted grants or many different account titles all suggest professional help may be needed.

Strangely enough, you probably will need the help of a CPA before you need a paid bookkeeper or accountant. The reason for this is that many government agencies, banks, foundations and other funding sources require audits and this requires the services of a CPA.

You may also grow large enough to need to hire a bookkeeper or accountant to "keep the books." S/he may be part-time or full-time. Remember, the treasurer's (and the board's) responsibility does not change after staff is hired. The person hired is, in effect, staff support for the treasurer, who now no longer has to maintain the records physically. The treasurer's main responsibilities now become: 1) oversight of the financial records; and 2) presentation and explanation of the financial statements to the board of directors.

Certified Public Accountants

At this point, let me add to my earlier definition of certified public accountant (CPA) or, in Canada, chartered accountant (CA). CPAs:

1) Help with the filing of tax returns and reports. This includes payroll and sales tax returns, the Federal Form 990, and the filings with your state or provincial government.

2) Function as accountants. They can help organize your financial system and recom-mend checks and balances to develop good internal control.

3) Function as management advisors. CPAs can help you plan and budget. They can help you consider computerization.

4) Issue several types of reports concerning your financial statements.

CPA Reports

All reports issued by a CPA must comply with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants. There are three types of CPA reports:

A. **“Audit”** - A systematic investigation of procedures or operations for the purpose of expressing an opinion on the fairness of an organization's financial statements. Procedures include confirmation with outside parties, physical inspection and observation, tracing transactions to supporting documents, etc. An audit provides the highest degree of assurance that the underlying data have been audited and tested as appropriate by an independent professional.

B. **“Review”** - Consists principally of reviewing the financial records, interviewing members of the board and staff, if any, and applying analytical procedures to consider the reasonableness of the financial statements. Although it is substantially less in scope than an audit, in a review report the CPA can express limited assurance that s/he is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles.

C. **“Compilation”** - The preparation of a set of financial statements prepared by a CPA from information that is given to him/her by the organization and that has not been subjected to audit or review. Therefore, the CPA does not express an opinion and gives no other form of assurance on these financial statements.

The result of a “compilation” is that the organization has a set of financial statements in good financial presentation format. If some assurance is needed, a “review” or “audit” is required. Each higher level of professional assurance is more complex and costs more.

From this point on, I am going to use the word “auditing” or “audit” to describe the services of a CPA, regardless of the type of report actually rendered.

Auditing in the United States is performed by CPAs (in Canada, by chartered accountants) and, in some states, by public accountants (PAs). CPAs are licensed in every state plus the District of Columbia, Puerto Rico, Guam and the Virgin Islands. Licensing of CPAs provides assurance that they have met minimum education and experience requirements, and have passed the rigorous Uniform CPA Examination.

Selection of a CPA

You might be asking: “Where do I find a CPA?”. . .”What does a CPA do and not do?”. . . “How much will a CPA's services cost us?”. . .and “What can we do to save money on the audit?”

Your objective is to select a CPA who:

1) understands your type of organization;

2) will perform needed services efficiently, using your staff whenever possible;

3) charges fees that provide a reasonable return for his/her services;

4) completes the audit in a timely manner;

5) will provide a letter to management explaining any situations that need improvement that were discovered during the performance of the CPA's services. (This letter may be the most important service the CPA provides to your organization.)

The quality of services provided to clients can vary greatly. Since a satisfied customer represents the best recommendation, begin your search for a CPA by contacting organizations similar to yours and asking who audits their financial statements. Satisfactory service to others is the best reference for the selection of your CPA. That CPA may not be suitable to you for other reasons, but at least you would be assured of his/her knowledge and performance.

Another source of references for a CPA is a community organization such as United Way. Generally, such agencies are familiar with a large number of CPAs and may be able to put you in contact with one qualified to perform your audit. Attorneys and bankers who provide services to your organization are also good sources of referrals. And don't forget to ask the members of your board of directors.

If you do not have at least three candidates to interview from the sources above, you can contact your State Society of Certified Public Accountants which may operate a referral service. Also, the Yellow Page listings in telephone directories under "Accountants, Certified Public" will provide you with a list of CPAs. However, you will have no way of knowing their qualifications or how efficiently they perform for their clients.

What to Look For

Three potential CPAs should be interviewed by your principal managers (president, treasurer, executive director, etc.) to determine how well these CPAs would relate to your organization and understand its operations. Be sure to ask what experience each CPA has had with other nonprofit organizations of your size. During or just after the interview, the CPA should be allowed to examine your books briefly so that s/he can make a fee estimate. Remember that the CPA will have to work with your staff and other members of your organization—it is very important that s/he can work effectively with them.

After the interview, you should receive what is called a "proposal letter" from the CPA describing the services to be performed, when they will be performed, hourly rates, and the estimated fee. You may also request to see samples of management letters issued to previous nonprofit clients (with the names deleted, of course), so that you can judge the type of recommendations made. With all this information and the results of the interview, you should now be able to select a CPA. The engagement of the CPA should be handled by the board of directors.

Fee estimates should be considered carefully. The CPA with the most experience with organizations like yours will be capable of providing you with the most accurate estimate of hours required. If there is not much variation in the number of hours estimated, you should probably select the CPA with the best qualifications and lowest hourly rate. In the event that the estimated number of hours varies substantially, this should be discussed with each CPA.

Your Agreement with the CPA

It is very important for you as well as for your CPA to have a clear agreement as to the services to be performed, what you will do, and the fees to be charged.

When this agreement is reached, the CPA should provide you with an engagement letter which details your understandings. The letter should be carefully reviewed by you and your board of directors to determine if all important elements of your oral agreements are included. When you are comfortable that all relevant items have been covered, sign the letter and return it to the CPA, retaining a copy for your files.

What Does a CPA Not Do?

It is helpful to know what should not be expected from a CPA. His/her main objective is not to discover theft or embezzlement although discovery of this does occur occasionally during the course of an audit. Nor is it the CPA's function to report your organization's problems to federal or state government agencies, funding sources or others outside your organization. However, the CPA should be expected to point these out to the organization's board of directors. The CPA is prohibited by the standards of the profession from discussing your affairs with outsiders.

CPAs do not have the time to find every single small error. They understand that bookkeepers, like everyone else, make mistakes. However, if a CPA discovers a significant error, s/he should require that it be corrected. When errors reflect a generally poor condition of the records, the CPA must take steps (by doing additional audit work) to assure that the books are reasonably accurate.

What Does a CPA Do?

Now that I have examined those things that a CPA does not do, let's examine in some detail those things that s/he does do. First, s/he asks a lot of questions! S/he will ask who approves the payroll, who signs the checks, who purchases goods and services, and many, many similar questions. These will generally fall into one of two classes: (1) those things that the CPA has to know to understand your organization in general, and (2) those things that a CPA has to know in order to understand the system and operations of your internal accounting controls.

Let's look at a sample of each type of question that a CPA is likely to ask. In getting to know your organization, the CPA will ask if you are incorporated or tax-exempt, the names of directors or trustees, the number of employees, etc. Along with these ques-tions, the CPA is likely to ask to see certain documents, such as your articles of incorporation and bylaws, your tax-exemption letter, and minutes from board of directors meetings.

The second type of question that the CPA will ask involves the operation of the accounting system. Who reconciles bank accounts? Who opens mail and deposits checks into the bank? Who authorizes the payment of invoices?

The CPA will need to send "confirmations." This involves testing the information in your accounting records against the records of someone outside of your organization. Typically, confirmation will be made of bank balances, loans and accounts receivable, grant or contract amounts, and loans and mortgages payable. Your CPA can use your staff to prepare these forms, but s/he will control the mailing of the forms and will receive the replies directly at his/her office.

The CPA will also want to see checks, invoices, contracts and other documents in order to determine that the accounting entries are fully and accurately documented. S/he will not examine all such forms, but will test a sample of the transactions for the year. If his/her sample does not disclose any material differences, and if there are no other reasons for further testing, the CPA will accept the sample as being representative of the accuracy of the records for the year. However, if material differences or a number of small discrepancies are noted, further testing and adjustment of records may be required.

The Independent Auditor's Report

The end product of the audit is the CPA's report on the financial statements. In the usual case with small organizations, the CPA prepares the financial statements as well as the accompanying footnotes. **However, you should remember that the financial statements belong to your organization and not to the CPA.**

The CPA provides a report, in the form of a letter, to be attached to the front of the financial statements which expresses his/her opinion as to the fairness of the financial statements, in conformity with generally accepted accounting principles.

Saving the CPA's Time

Since the CPA charges for his/her time, anything that you can do to save time will reduce your fee. Such an approach is practical for most organizations because few, if any, of your employees earn the hourly rate that a CPA will charge.

Your books and records should be in good order. Journals for the entire year should be totaled and entered in the general ledger. All ledgers, journals, invoices, checks, bank statements, tax returns and other documents for the year should be filed in a systematic way and made accessible to the CPA.

A number of the tasks that must be performed during an audit can be performed by someone in your organization. For example, you can take a trial balance (a listing of all accounts in your general ledger, by name and account number, in a form that can be used by the CPA during the performance of the audit). You should inquire of the CPA as to form or format desired. Anyone who can follow instructions and write legibly should be able to complete the trial balance satisfactorily.

The CPA may request specific invoices or cancelled checks during the audit. If you can locate them, there will be a considerable saving of time and a lower audit fee. Other tasks such as copying documents, assembling data, preparing confirmation forms, letters to attorneys and other clerical tasks can be performed by you under the CPA's direction.

You may not be in a position to perform these functions for the CPA. If this is the case, consider the possibility of hiring temporary personnel, which again may be less expensive than the hourly rate of the CPA. Your CPA will be able to tell you on which days s/he will need assistance so you can plan appropriately.

For My Successor

Our accountant is:

17

How to Get Help

Accountants for the Public Interest
1012-14th St. NW, Suite 906
Washington, DC 2005
(410) 837-6533
www.geocities.com/api_woods/api/apihome.html

Accountants for the Public Interest is a national network of CPAs and accountants who provide volunteer accounting services to organizations that cannot afford to purchase them in the marketplace. API has affiliates and members in various cities around the United States.

National professional accounting organizations:

**American Institute of
Certified Public Accountants**
1211 Avenue of the Americas
New York, NY 10036-8775
(212) 575-6200

**Canadian Institute of
Chartered Accountants**
277 Wellington St. West
Toronto, ON M5V 3H2
(416) 977-3222

National Society of Accountants
1010 N. Fairfax St.
Alexandria, VA 22314
(800) 966-6679

There are state and provincial affiliates, or local chapters, of each of these organizations throughout the United States and Canada.

APPENDICES

APPENDIX A

Guidelines for the Audit Committee of an Organization without an Outside Accountant

Introduction

These Guidelines are for an audit committee of two or more members appointed by a board of directors. It is assumed that the financial records of the organization are kept by a volunteer treasurer who is not a professional accountant and that the financial statements do not require the services of a CPA (such requirements might come from government, funding sources, or the organization's bylaws).

During its work, the audit committee should question anything that is not clear or looks unusual. Any such items should be discussed with the treasurer and/or president.

General

Be sure a system exists for keeping track of cash receipts and disbursements. Use common sense; the system need not be complicated. Treasurer's reports should be made periodically (at each board meeting) and at a minimum once a year. These reports should be traceable back to the cash receipts and disbursements records.

Records to Be Maintained and What Should Be Checked

A. Cash receipts: all receipts should be listed by date received, name of payer and reasons for.

Is such a record kept? ☐ yes ☐ no

B. Cash disbursements: all disbursements should be listed by date paid, name of payee and reason for being paid.

Is such a record kept? ☐ yes ☐ no

Note: for a very small organizations all of the cash receipts and cash disbursements information can be maintained in a checkbook.

C. Paid invoices: all disbursements should be supported by an invoice and these should be filed by date paid or by vendor. The check number and date paid should be written on the invoice. Preferably approved by someone other than the treasurer (the check writer).

Note: An invoice may be a note from a member of the organization for reimbursement of some things paid by him or her. An invoice does not have to be a formal receipt from a store. As indicated above, it is best if a third person approves the invoice (the presenter of the invoice and the treasurer being the other two people).

The audit committee should trace *from* a few cancelled checks to the supporting invoice.

Do supporting invoices agree to the checks written?

☐ yes ☐ no

D. All checks should be signed by the authorized check signer(s). Scan checks for the year to be sure this has been followed.

Is this done? ☐ yes ☐ no

E. All bank accounts should be reconciled to the checkbook monthly.

Is this done? ☐ yes ☐ no

F. The listing of outstanding (unpaid) invoices and amounts due the organization (pledges, etc.) should be reviewed to be sure it is correct and all-inclusive. Have the bills been subsequently paid and have the amounts receivable been collected?

Has this been done? ☐ yes ☐ no

G. If any salaries or wages are paid, be sure that the employees' records are maintained, that rates have been approved, that deductions are being made and that withheld taxes have been paid to the appropriate government.

Has this been done? ☐ yes ☐ no

H. The year-end treasurer's report for the year should be traceable to the cash receipts and disbursements records.

Are they? ☐ yes ☐ no

Note: The treasurer's report must agree to the books. The cash receipts records (see A above) should be totaled. the cash disbursements records (see B above) should be totaled. These totals should agree to the treasurer's report. If the records are all kept in the checkbook, a worksheet may have to be prepared or the checkbook itself can be added up.

I. The Federal Form 990 and state charity regulators reports (if any) should be completed and filed on time.

Were they? ☐ yes ☐ no

Overall

All records should be reasonably neat, readable, and "in order." All questions raised in these Guidelines should be answered "yes." Any "no" answer should be explained.

Reporting to the Board

After the audit committee has finished its review a report should be prepared for the board. A sample format is shown below. These Guidelines might be attached to the report showing the answer to each question.

REPORT OF THE AUDIT COMMITTEE OF

____
(*name of organization*)

for the year ended

____
(*month, day, year*)

We have audited the financial statements for the above year (using the attached Guidelines). In our opinion, except as noted below, the financial statements agree with the accounting records and, based upon our tests, appear to be correct.

Exceptions: *(indicate "none" if appropriate)*
____
____
____

Audit Committee: *(signatures)*:

____
____
____

____
(*date*)

APPENDIX B

Form 990–Return Organization Exempt From Income Tax

For the most current form and information for Form 990, please contact the IRS at www.irs.gov.

Form **990** | **Return of Organization Exempt From Income Tax** | OMB No. 1545-0047
Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)
▶ The organization may have to use a copy of this return to satisfy state reporting requirements.
Department of the Treasury Internal Revenue Service
2002 Open to Public Inspection

A For the 2002 calendar year, or tax year beginning , 2002, and ending , 20

B Check if applicable: ☐ Address change ☐ Name change ☐ Initial return ☐ Final return ☐ Amended return ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization: HOMETOWN AGENCY
Number and street (or P.O. box if mail is not delivered to street address) | Room/suite: 111 Some Street
City or town, state or country, and ZIP + 4: Ellis City, PA 19144

D Employer identification number: 23 : 1933240
E Telephone number: (555 131-2424
F Accounting method: ☐ Cash ☒ Accrual ☐ Other (specify) ▶

• **Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).**

H and I are not applicable to section 527 organizations.
H(a) Is this a group return for affiliates? ☐ Yes ☒ No
H(b) If "Yes," enter number of affiliates ▶
H(c) Are all affiliates included? ☐ Yes ☒ No (If "No," attach a list. See instructions.)
H(d) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☒ No
I Enter 4-digit GEN ▶
M Check ▶ ☐ if the organization is **not** required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

G Web site: ▶

J Organization type (check only one) ▶ ☒ 501(c) (3) ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. **Some states require a complete return.**

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶ 144,512

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 17 of the instructions.)

Revenue	1	Contributions, gifts, grants, and similar amounts received:				
	a	Direct public support	1a	107,765		
	b	Indirect public support	1b			
	c	Government contributions (grants)	1c	23,500		
	d	**Total** (add lines 1a through 1c) (cash $ 131,265 noncash $)			1d	131,265
	2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	
	3	Membership dues and assessments			3	8,727
	4	Interest on savings and temporary cash investments			4	1,423
	5	Dividends and interest from securities			5	
	6a	Gross rents	6a			
	b	Less: rental expenses	6b			
	c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	
	7	Other investment income (describe ▶)			7	
	8a	Gross amount from sales of assets other than inventory — (A) Securities / (B) Other	8a			
	b	Less: cost or other basis and sales expenses	8b			
	c	Gain or (loss) (attach schedule)	8c			
	d	Net gain or (loss) (combine line 8c, columns (A) and (B))			8d	
	9	Special events and activities (attach schedule)				
	a	Gross revenue (not including $ of contributions reported on line 1a)	9a			
	b	Less: direct expenses other than fundraising expenses	9b			
	c	Net income or (loss) from special events (subtract line 9b from line 9a)			9c	
	10a	Gross sales of inventory, less returns and allowances	10a			
	b	Less: cost of goods sold	10b			
	c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)			10c	
	11	Other revenue (from Part VII, line 103)			11	3,097
	12	**Total revenue** (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	144,512
Expenses	13	Program services (from line 44, column (B))			13	88,928
	14	Management and general (from line 44, column (C))			14	33,423
	15	Fundraising (from line 44, column (D))			15	19,981
	16	Payments to affiliates (attach schedule)			16	
	17	**Total expenses** (add lines 16 and 44, column (A))			17	142,332
Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 12)			18	2,180
	19	Net assets or fund balances at beginning of year (from line 73, column (A))			19	66,084
	20	Other changes in net assets or fund balances (attach explanation)			20	
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)			21	68,264

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2002)

Form 990 (2002) Page **2**

Part II **Statement of Functional Expenses** All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 21 of the instructions.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) (cash $ ______ noncash $ ______)	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc.	25				
26 Other salaries and wages	26	90,747	53,098	21,990	15,659
27 Pension plan contributions	27				
28 Other employee benefits	28	9,568	5,319	2,496	1,753
29 Payroll taxes	29	10,163	5,947	2,463	1,753
30 Professional fundraising fees	30				
31 Accounting fees	31	500		500	
32 Legal fees	32				
33 Supplies	33	1,492	1,076	416	
34 Telephone	34	3,681	2,743	938	
35 Postage and shipping	35	2,712	1,682	214	816
36 Occupancy	36	13,835	11,033	2,802	
37 Equipment rental and maintenance	37	1,512	897	615	
38 Printing and publications	38				
39 Travel	39	1,962	1,962		
40 Conferences, conventions, and meetings	40				
41 Interest	41				
42 Depreciation, depletion, etc. (attach schedule)	42	739	739		
43 Other expenses not covered above (itemize): a Insurance	43a	1,246	934	312	
b Electricity	43b	1,888	1,417	471	
c Staff development	43c	2,045	1,839	206	
d Miscellaneous	43d	242	242		
e	43e				
44 **Total functional expenses** (add lines 22 through 43). ***Organizations completing columns (B)-(D), carry these totals to lines 13—15***	44	142,332	88,928	33,423	19,981

Joint Costs. Check ▶ ☐ if you are following SOP 98-2.
Are any joint costs from a combined educational campaign and fundraising solicitation reported in **(B)** Program services? ▶ ☐ **Yes** ☒ **No**
If "Yes," enter **(i)** the aggregate amount of these joint costs $______; **(ii)** the amount allocated to Program services $______; **(iii)** the amount allocated to Management and general $______; and **(iv)** the amount allocated to Fundraising $

Part III **Statement of Program Service Accomplishments** (See page 24 of the instructions.)

What is the organization's primary exempt purpose? ▶ Mission statement All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)	**Program Service Expenses** (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a "Specific" service A to the community (Grants and allocations $)	53,037
b "Specific" service B to the community (Grants and allocations $)	35,891
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f **Total of Program Service Expenses** (should equal line 44, column (B), Program services) ▶	88,928

Form **990** (2002)

Form 990 (2002) Page **3**

Part IV **Balance Sheets** (See page 24 of the instructions.)

Note: *Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.*			(A) Beginning of year		(B) End of year
Assets					
45	Cash—non-interest-bearing		9,865	45	14,261
46	Savings and temporary cash investments		48,548	46	56,663
47a	Accounts receivable	47a			
b	Less: allowance for doubtful accounts	47b		47c	
48a	Pledges receivable	48a			
b	Less: allowance for doubtful accounts	48b		48c	
49	Grants receivable		12,000	49	
50	Receivables from officers, directors, trustees, and key employees (attach schedule)			50	
51a	Other notes and loans receivable (attach schedule)	51a			
b	Less: allowance for doubtful accounts	51b		51c	
52	Inventories for sale or use			52	
53	Prepaid expenses and deferred charges			53	
54	Investments—securities (attach schedule) ▶ ☐ Cost ☐ FMV			54	
55a	Investments—land, buildings, and equipment: basis	55a			
b	Less: accumulated depreciation (attach schedule)	55b		55c	
56	Investments—other (attach schedule)			56	
57a	Land, buildings, and equipment: basis	57a 40,921			
b	Less: accumulated depreciation (attach schedule)	57b 28,162	13,498	57c	12,759
58	Other assets (describe ▶)			58	
59	**Total assets** (add lines 45 through 58) (must equal line 74)		83,911	59	83,683
Liabilities					
60	Accounts payable and accrued expenses		17,827	60	15,419
61	Grants payable			61	
62	Deferred revenue			62	
63	Loans from officers, directors, trustees, and key employees (attach schedule)			63	
64a	Tax-exempt bond liabilities (attach schedule)			64a	
b	Mortgages and other notes payable (attach schedule)			64b	
65	Other liabilities (describe ▶)			65	
66	**Total liabilities** (add lines 60 through 65)		17,827	66	15,419
Net Assets or Fund Balances					
	Organizations that follow SFAS 117, check here ▶ ☒ **and complete lines 67 through 69 and lines 73 and 74.**				
67	Unrestricted		43,167	67	45,238
68	Temporarily restricted		9,419	68	10,267
69	Permanently restricted		13,498	69	12,759
	Organizations that do not follow SFAS 117, check here ▶ ☐ **and** complete lines 70 through 74.				
70	Capital stock, trust principal, or current funds			70	
71	Paid-in or capital surplus, or land, building, and equipment fund			71	
72	Retained earnings, endowment, accumulated income, or other funds			72	
73	**Total net assets or fund balances** (add lines 67 through 69 **or** lines 70 through 72; column (A) **must** equal line 19; column (B) **must** equal line 21)		66,084	73	68,264
74	**Total liabilities and net assets / fund balances** (add lines 66 and 73)		83,911	74	83,683

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Form 990 (2002) Page **4**

Part IV-A **Reconciliation of Revenue per Audited Financial Statements with Revenue per Return** (See page 26 of the instructions.)

a	Total revenue, gains, and other support per audited financial statements ▶	a	144,512
b	Amounts included on line **a** but not on line 12, Form 990:		
(1)	Net unrealized gains on investments $		
(2)	Donated services and use of facilities $		
(3)	Recoveries of prior year grants $		
(4)	Other (specify): $		
	Add amounts on lines **(1)** through **(4)** ▶	b	0
c	Line **a** minus line **b** ▶	c	144,512
d	Amounts included on line 12, Form 990 but not on line **a**:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): $		
	Add amounts on lines **(1)** and **(2)** ▶	d	0
e	Total revenue per line 12, Form 990 (line **c** plus line **d**) ▶	e	144,512

Part IV-B **Reconciliation of Expenses per Audited Financial Statements with Expenses per Return**

a	Total expenses and losses per audited financial statements ▶	a	142,332
b	Amounts included on line **a** but not on line 17, Form 990:		
(1)	Donated services and use of facilities $		
(2)	Prior year adjustments reported on line 20, Form 990 $		
(3)	Losses reported on line 20, Form 990 $		
(4)	Other (specify): $		
	Add amounts on lines **(1)** through **(4)** ▶	b	0
c	Line **a** minus line **b** ▶	c	142,332
d	Amounts included on line 17, Form 990 but not on line **a**:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): $		
	Add amounts on lines **(1)** and **(2)** ▶	d	0
e	Total expenses per line 17, Form 990 (line **c** plus line **d**) ▶	e	142,332

Part V **List of Officers, Directors, Trustees, and Key Employees** (List each one even if not compensated; see page 26 of the instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
	See attached list.			

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ▶ ☐ **Yes** ☒ **No**
If "Yes," attach schedule—see page 26 of the instructions.

Form **990** (2002)

Form 990 (2002) Page **5**

Part VI Other Information (See page 27 of the instructions.)

			Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76		X
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.	77		X
78a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a		X
b	If "Yes," has it filed a tax return on **Form 990-T** for this year?	78b		
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79		X
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a		X
b	If "Yes," enter the name of the organization ▶ .... and check whether it is ☐ exempt **or** ☐ nonexempt.			
81a	Enter direct or indirect political expenditures. See line 81 instructions — 81a			
b	Did the organization file **Form 1120-POL** for this year?	81b		X
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	X	
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) — 82b 76,413			
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	X	
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	X	
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a		X
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b		
85	*501(c)(4), (5), or (6) organizations.* **a** Were substantially all dues nondeductible by members?	85a		
b	Did the organization make only in-house lobbying expenditures of $2,000 or less?	85b		
	If "Yes" was answered to either 85a or 85b, **do not** complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.			
c	Dues, assessments, and similar amounts from members — 85c			
d	Section 162(e) lobbying and political expenditures — 85d			
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices — 85e			
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) — 85f			
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g		
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h		
86	*501(c)(7) orgs.* Enter: **a** Initiation fees and capital contributions included on line 12 — 86a			
b	Gross receipts, included on line 12, for public use of club facilities — 86b			
87	*501(c)(12) orgs.* Enter: **a** Gross income from members or shareholders — 87a			
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) — 87b			
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88		X
89a	*501(c)(3) organizations.* Enter: Amount of tax imposed on the organization during the year under: section 4911 ▶ 0 ; section 4912 ▶ 0 ; section 4955 ▶ 0			
b	*501(c)(3) and 501(c)(4) orgs.* Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b		X

c Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 ▶ 0

d Enter: Amount of tax on line 89c, above, reimbursed by the organization ▶

90a List the states with which a copy of this return is filed ▶ PA

b Number of employees employed in the pay period that includes March 12, 2002 (See instructions.) 90b 3

91 The books are in care of ▶ Treasurer Telephone no. ▶ (555)465-8342
Located at ▶ 111 Some Street, Ellis City, PA ZIP + 4 ▶ 19144-5454

92 *Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of* ***Form 1041***—Check here ▶ ☐
and enter the amount of tax-exempt interest received or accrued during the tax year ▶ 92

Form **990** (2002)

Form 990 (2002) Page **6**

Part VII **Analysis of Income-Producing Activities** (See page 31 of the instructions.)

Note: *Enter gross amounts unless otherwise indicated.*	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
93 Program service revenue:					
a Contributions					107,765
b Government contributions					23,500
c					
d					
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					8,727
95 Interest on savings and temporary cash investments					1,423
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate:					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue: a Miscellaneous					3,097
b					
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))					144,512

105 **Total** (add line 104, columns (B), (D), and (E)) ▶ 144,512

Note: *Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.*

Part VIII **Relationship of Activities to the Accomplishment of Exempt Purposes** (See page 32 of the instructions.)

Line No. ▼	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).

Part IX **Information Regarding Taxable Subsidiaries and Disregarded Entities** (See page 32 of the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

Part X **Information Regarding Transfers Associated with Personal Benefit Contracts** (See page 33 of the instructions.)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? ☐ **Yes** ☒ **No**

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? ☐ **Yes** ☒ **No**

Note: *If "Yes" to* ***(b)****, file Form 8870* ***and*** *Form 4720 (see instructions).*

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

▶ Dale Crescent | 5-4-X3

Signature of officer | Date

▶ Dale Crescent, Treasurer

Type or print name and title.

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN (See Gen. Inst. W)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶		EIN ▶	
		Phone no. ▶ ( )	

Form **990** (2002)

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Organization Exempt Under Section 501(c)(3)

(Except Private Foundation) and Section 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

Supplementary Information—(See separate instructions.)

▶ **MUST be completed by the above organizations and attached to their Form 990 or 990-EZ**

OMB No. 1545-0047

2002

Name of the organization: HOMETOWN AGENCY

Employer identification number: 23 1933240

Part I **Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees**
(See page 1 of the instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than $50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
	NONE			
Total number of other employees paid over $50,000 . . . . ▶				

Part II **Compensation of the Five Highest Paid Independent Contractors for Professional Services**
(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than $50,000	(b) Type of service	(c) Compensation
	NONE	
Total number of others receiving over $50,000 for professional services . . . . ▶ 0		

For Paperwork Reduction Act Notice, see the Instructions for Form 990 and Form 990-EZ. Cat. No. 11285F **Schedule A (Form 990 or 990-EZ) 2002**

Schedule A (Form 990 or 990-EZ) 2002 Page **2**

Part III **Statements About Activities** (See page 2 of the instructions.)

			Yes	No
1	During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ▶ $ ______ **(Must equal amounts on line 38,** Part VI-A, or line **i** of Part VI-B.)	1		X
	Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.			
2	During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? *(If the answer to any question is "Yes," attach a detailed statement explaining the transactions.)*			
a	Sale, exchange, or leasing of property?	2a		X
b	Lending of money or other extension of credit?	2b		X
c	Furnishing of goods, services, or facilities?	2c		X
d	Payment of compensation (or payment or reimbursement of expenses if more than $1,000)?	2d		X
e	Transfer of any part of its income or assets?	2e		X
3	Does the organization make grants for scholarships, fellowships, student loans, etc.? (See **Note** below.)	3		X
4	Do you have a section 403(b) annuity plan for your employees?	4		X

Note: *Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs "qualify" to receive payments.*

Part IV **Reason for Non-Private Foundation Status** (See pages 3 through 5 of the instructions.)

The organization is not a private foundation because it is: (Please check only **ONE** applicable box.)

5 ☐ A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 ☐ A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)

7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 ☐ A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 ☐ A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). **Enter the hospital's name, city, and state** ▶ ____________

10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)

11a ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

11b ☐ A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

12 ☒ An organization that normally receives: **(1) more than 33⅓%** of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions—subject to certain exceptions, and **(2) no more than 33⅓%** of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)

13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: **(1)** lines 5 through 12 above; or **(2)** section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	**(b)** Line number from above

14 ☐ An organization organized and operated to test for public safety. Section 509(a)(4). (See page 5 of the instructions.)

Schedule A (Form 990 or 990-EZ) 2002

Schedule A (Form 990 or 990-EZ) 2002 Page **3**

Part IV-A **Support Schedule** (Complete only if you checked a box on line 10, 11, or 12.) ***Use cash method of accounting.***

Note: *You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.*

Calendar year (or fiscal year beginning in) ▶	**(a)** 2001	**(b)** 2000	**(c)** 1999	**(d)** 1998	**(e)** Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)	124,215	105,632	99,812	102,342	432,001
16 Membership fees received	8,116	7,942	8,193	7,812	32,063
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose					
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	1,581	1,982	1,463	1,516	6,542
19 Net income from unrelated business activities not included in line 18					
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge					
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets	2,359	962	1,212	432	4,965
23 Total of lines 15 through 22	136,271	116,518	110,680	112,102	475,571
24 Line 23 minus line 17	136,271	116,518	110,680	112,102	475,571
25 Enter 1% of line 23					

26 **Organizations described on lines 10 or 11:** **a** Enter 2% of amount in column (e), line 24 ▶ **26a**

b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1998 through 2001 exceeded the amount shown in line 26a. **Do not file this list with your return.** Enter the total of all these excess amounts ▶ **26b** none

c Total support for section 509(a)(1) test: Enter line 24, column (e) ▶ **26c**

d Add: Amounts from column (e) for lines: 18 ______ 19 ______ 22 ______ 26b ______ ▶ **26d**

e Public support (line 26c minus line 26d total) ▶ **26e**

f **Public support percentage (line 26e (numerator) divided by line 26c (denominator))** ▶ **26f** %

27 **Organizations described on line 12:** **a** For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." **Do not file this list with your return.** Enter the sum of such amounts for each year: NONE

(2001) ______ (2000) ______ (1999) ______ (1998) ______

b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the **larger** of **(1)** the amount on line 25 for the year or **(2)** $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) **Do not file this list with your return.** After computing the difference between the amount received and the larger amount described in **(1)** or **(2)**, enter the sum of these differences (the excess amounts) for each year: NONE

(2001) ______ (2000) ______ (1999) ______ (1998) ______

c Add: Amounts from column (e) for lines: 15 ______ 16 ______ 17 ______ 20 ______ 21 ______ ▶ **27c**

d Add: Line 27a total ______ and line 27b total ______ ▶ **27d**

e Public support (line 27c total minus line 27d total) ▶ **27e**

f Total support for section 509(a)(2) test: Enter amount from line 23, column (e) ▶ **27f**

g **Public support percentage (line 27e (numerator) divided by line 27f (denominator))** ▶ **27g** %

h **Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))** ▶ **27h** %

28 **Unusual Grants:** For an organization described in line 10, 11, or 12 that received any unusual grants during 1998 through 2001, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. **Do not file this list with your return.** Do not include these grants in line 15.

Schedule A (Form 990 or 990-EZ) 2002

Schedule A (Form 990 or 990-EZ) 2002 Page **4**

Part V **Private School Questionnaire** (See page 7 of the instructions.)
(To be completed ONLY by schools that checked the box on line 6 in Part IV)

			Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	**29**		
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	**30**		
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves? If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)	**31**		
32	Does the organization maintain the following:			
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	**32a**		
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	**32b**		
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	**32c**		
d	Copies of all material used by the organization or on its behalf to solicit contributions?	**32d**		
	If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)			
33	Does the organization discriminate by race in any way with respect to:			
a	Students' rights or privileges?	**33a**		
b	Admissions policies?	**33b**		
c	Employment of faculty or administrative staff?	**33c**		
d	Scholarships or other financial assistance?	**33d**		
e	Educational policies?	**33e**		
f	Use of facilities?	**33f**		
g	Athletic programs?	**33g**		
h	Other extracurricular activities?	**33h**		
	If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)			
34a	Does the organization receive any financial aid or assistance from a governmental agency?	**34a**		
b	Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement.	**34b**		
35	Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	**35**		

Schedule A (Form 990 or 990-EZ) 2002

Schedule A (Form 990 or 990-EZ) 2002 Page **5**

Part VI-A **Lobbying Expenditures by Electing Public Charities** (See page 9 of the instructions.)
(To be completed **ONLY** by an eligible organization that filed Form 5768)

Check ▶ **a** ☐ if the organization belongs to an affiliated group. Check ▶ **b** ☐ if you checked "**a**" and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		**(a)** Affiliated group totals	**(b)** To be completed for ALL electing organizations
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38		
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40		
41 Lobbying nontaxable amount. Enter the amount from the following table—			
If the amount on line 40 is— / **The lobbying nontaxable amount is—**			
Not over $500,000 — 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 — $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 — $175,000 plus 10% of the excess over $1,000,000	41		
Over $1,500,000 but not over $17,000,000 — $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 — $1,000,000			
42 Grassroots nontaxable amount (enter 25% of line 41)	42		
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43		
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44		

Caution: *If there is an amount on either line 43 or line 44, you must file Form 4720.*

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in) ▶	**(a)** 2002	**(b)** 2001	**(c)** 2000	**(d)** 1999	**(e)** Total
45 Lobbying nontaxable amount					
46 Lobbying ceiling amount (150% of line 45(e))					
47 Total lobbying expenditures					
48 Grassroots nontaxable amount					
49 Grassroots ceiling amount (150% of line 48(e))					
50 Grassroots lobbying expenditures					

Part VI-B **Lobbying Activity by Nonelecting Public Charities**
(For reporting only by organizations that did not complete Part VI-A) (See page 11 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	**Yes**	**No**	**Amount**
a Volunteers			
b Paid staff or management (Include compensation in expenses reported on lines **c** through **h.**)			
c Media advertisements			
d Mailings to members, legislators, or the public			
e Publications, or published or broadcast statements			
f Grants to other organizations for lobbying purposes			
g Direct contact with legislators, their staffs, government officials, or a legislative body			
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means			
i Total lobbying expenditures (Add lines **c** through **h.**)			

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.

Schedule A (Form 990 or 990-EZ) 2002

Schedule A (Form 990 or 990-EZ) 2002 Page **6**

Part VII **Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations** (See page 12 of the instructions.)

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

		Yes	No
a Transfers from the reporting organization to a noncharitable exempt organization of:			
(i) Cash	**51a(i)**		X
(ii) Other assets	**a(ii)**		X
b Other transactions:			X
(i) Sales or exchanges of assets with a noncharitable exempt organization	**b(i)**		
(ii) Purchases of assets from a noncharitable exempt organization	**b(ii)**		X
(iii) Rental of facilities, equipment, or other assets	**b(iii)**		X
(iv) Reimbursement arrangements	**b(iv)**		X
(v) Loans or loan guarantees	**b(v)**		X
(vi) Performance of services or membership or fundraising solicitations	**b(vi)**		X
c Sharing of facilities, equipment, mailing lists, other assets, or paid employees	**c**		X

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received:

(a) Line no.	(b) Amount involved	(c) Name of noncharitable exempt organization	(d) Description of transfers, transactions, and sharing arrangements

52a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ▶ ☐ **Yes** ☒ **No**

b If "Yes," complete the following schedule:

(a) Name of organization	(b) Type of organization	(c) Description of relationship

Schedule A (Form 990 or 990-EZ) 2002

Glossary

Accounting Principles The guidelines an organization follows in the measurement, classification and interpretation of its financial information.

Accounting System The structure of records and procedures which record, classify, summarize and report information on the financial position and results of the operations of an organization.

Accounts payable Money owed to creditors from whom the organization has purchased goods or services.

Accounts receivable Money due from someone for goods or services provided; or a pledge to contribute a specific amount of money in the future.

Accrual basis of accounting The basis of accounting under which transactions are recognized when they occur.

Accrued interest Interest accumulated on a debt since the last interest payment date.

Annual report Information provided annually by the board of directors of an organization about its operations. It usually includes financial statements.

Asset Any physical object owned or intangible right having an economic value to its owner.

Audit A systematic investigation by a CPA of procedures or operations for the purpose of expressing an opinion on the fairness of an organization's financial statements.

Audit committee A committee of the board of directors whose responsibility is to see to it that an audit is performed of the financial records as kept by the treasurer. In an organization without an outside CPA, the audit committee itself examines the records and reports to the board. In an organization with an outside CPA, the audit committee's responsibility is to meet with the outside CPA and to review the annual financial statements before they are submitted to the board of directors.

Audit trail The ability to trace each transaction forward from the source documentation through all journals and ledgers to the summary statements and financial reports, or the reverse.

Balance sheet The financial statement which shows the financial position of an organization by listing its assets, liabilities, and fund balances at a specified date.

Budget A plan of financial operation that includes an estimate of proposed expenditures for a given period and the proposed means of financing them.

CA "Chartered Accountant" (Canada)

CPA "Certified Public Accountant" (United States)

Capital additions or expenditures Fixed assets such as land, buildings, or equipment purchased or donated.

Capital gain or loss Profit or loss resulting from the sale of an investment.

Cash basis of accounting The basis of accounting under which transactions are recognized when cash changes hands.

Cash flow The increase or decrease in an organization's cash during a period of time.

Compilation The preparation of a set of financial statements by a CPA from information that is given to him/her by the organization and that has not been subjected to audit or review.

Cost The amount of an expenditure to obtain goods or services. See "expense."

Current asset An asset which is available or can be made readily available, usually within one year, to finance current operations or to pay current liabilities. For example: cash, accounts receivable and temporary investments.

Current liability A liability that is payable within one year.

Deferred income Income received or recorded before it is earned.

Deficit An excess of expenses over revenues over a measured period of time.

Depreciation Systematic charges against income to write off the cost of an asset over its estimated useful life. the charges are usually related to the asset's lost usefulness, expired utility or diminution of services. It is only a bookkeeping entry and does not represent any cash being spent or set aside.

Designated funds Restricted funds set aside by a board of directors for a specific purpose. Unlike "restricted funds," designated funds can be changed by the board of directors.

Disbursement A payment in cash

Endowment fund Funds given to an organization, the income from which can be used for general or specific purposes according to the conditions attached to the gift by the donor, and the principal of which must be maintained or applied to the purposes of the fund.

Expenditure A disbursement for any purpose.

Expense A cost, within a measured period of time, incurred to operate an organization. See "cost."

Financial statements The means by which the information accumulated in the financial accounting system is periodically communicated to those who use it.

Fiscal year The year covered by the annual financial statements.

Fixed asset A tangible, long-term asset held for use rather than for sale. Examples are land, buildings, machinery, and equipment.

Fund A set of accounts separated by legal or other limitations, to carry on specific activities or attain certain objectives.

Fund accounting Accounting procedures in which a self-balancing group of accounts is provided for each fund established by legal or other limitations.

Fund balance The assets less the liabilities of a particular fund.

General journal The book of original entry in which financial transactions and adjustments are recorded which are not provided for in a specialized journal.

General ledger A book, file, or other device which contains all the asset, liability, revenue and support, and expense accounts of an organization.

Generally Accepted Accounting Principles (GAAP) Uniform minimum standards of and guidelines to financial accounting and reporting. They govern the form and content of the basic financial statements of an organization.

Internal control The plan of organization and all the coordinated methods and measures adopted by management to safeguard assets, ensure the accuracy and reliability of accounting data, an maintain adherence to prescribed policies.

Inventory Items held for sale.

Investment An expenditure to acquire an asset or an asset that yields, or is expected to yield, income.

Invoice A bill for goods or services rendered.

Journal A book of original entry of financial transactions. Examples are the cash receipts journal, cash disbursements journal, or general journal.

Liability Debts or obligations owed by an organization.

Long-term Liability Debts or obligations owed, but that are due in more than one year.

Original entry The first record of a financial transaction made in a journal.

Overhead Expenses that apply to the whole organization and not to specific activities.

Petty Cash A relatively small amount of cash kept on hand to meet minor disbursements.

Prepaid expense An expense paid in advance of the period which it will benefit, such as insurance or rent.

Restricted funds Funds received by an organization which can only be used for the specific purpose indicated by the donor.

Review An examination of an organization's financial records by a CPA. Although significantly less in scope than an audit, a review report provides limited assurance of the reasonableness of the financial statements.

Trial Balance A listing of the debit and credit balances in each general ledger account as of a specific date. Total debits must equal total credits.

Unrestricted funds Funds that are available for any purpose appropriate to the organization and approved by the board of directors.

Energize Web site keeps you on the cutting edge!

Already a favorite site among Internet users interested in volunteer issues, the Energize Web site is continually updated to be useful. You'll find:

- The monthly "Hot Topic" by Energize President Susan Ellis on issues of timely interest to leaders of volunteers. You can join in the dialogue by posting your opinions.
- An entire library of articles on volunteer management.
- The Energize Online Bookstore, with over 80 titles in print and electronic form, offering the chance to sample excerpts from books on volunteer management.
- Helpful tips to use every day in working with volunteers.
- Up-to-the-minute information on key conference, events, and training workshops.
- A DOVIA Directory, and links to other volunteer-related Web sites.
- Quotes and parables illuminating volunteering.
- A Job Bank for finding and posting volunteer leadership positions.

Bookmark It!

Mark the Energize Web site as a "favorite" in your Web browser and return to Energize often.

http://www.energizeinc.com

Receive free e-mail updates about our Web site and publications!

Easy online sign-up at: http://energizeinc.com/fillin/email.html