

## **General Bookkeeping Guidelines**

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### **Bookkeeping Systems**

**What kind of bookkeeping system should be used?** One you will do. And one that will keep information accurately and can be understood by others.

**What accounting program options are there?** Depending on the size of the organization and the number of monthly transactions, records can be kept anywhere from a checkbook register, to a simple Excel spreadsheet, to an accounting program like Quickbooks. Programs such as Quickbooks can sometimes be purchased by non-profits at a significantly reduced price from *Techsoup.org* when available.

**Does it matter in what format reports are presented?** Particularly in presentations to foundations or corporations for obtaining funding, it is important to present financial information as professionally as possible. Quickbooks reports are a generally recognized format by foundations and other funders. If structured clearly, financial reports can represent the organization well and instill confidence in a potential funder.

**Does it matter what bank is used for keeping accounts?** If possible, use a bank that includes copies of checks (or the originals) in the bank statement. It is also preferable if the bank provides online copies of deposit slips. This creates a backup system for all transactions processed through the bank account.

From IRS Compliance Guide – “A recordkeeping system should generally include a summary of transactions. The books must show gross receipts, purchases, expenses (other than purchases), employment taxes, and assets. For most small organizations, the checkbook might be the main source for entries in the books while larger organizations would need more sophisticated ledgers and records. A public charity must keep documentation that supports entries in the books.”

**How should administrative payroll be reported in relation to projects?** In an annual budget, a paid employee is administration and so the full cost is listed there. Foundations acknowledge that in a small organization administrative salaries could be the single greatest expense. This can be noted if you present a sponsor with graphs or charts detailing where raised dollars are allocated, and what portion of the administrative salary is dedicated to which projects.

However, salaries are typically attributed to a program in a budget for a grant proposal. Knowing that the majority of raised dollars go to program expenses, and that a grant request is typically only a portion of the annual budget that pertains to a particular program, then this is where you include a percentage of the administrative costs necessary to run that program.

For additional information check with your local CPA resource, or contact The Pro Bono Partnership to see if they have any detailed guidance from their volunteer CPA.

### **Record Keeping**

**How should I organize my files?** Create files (not a box in the closet) where you keep financial transaction information. Titles for such files may include: 2009 Bank Statements, 2009 Paid Bills, 2009 Receipt Detail, etc. Files must be kept carefully so that historical information is easily available to future officers of the organization, and to comply with annual reporting requirements to the state and/or Internal Revenue Service.

**How often should I reconcile the checkbook?** Monthly once the bank statement is available. Also, do not wait until the day before a board meeting to update the monthly records and/or reconcile the bank accounts. There may be a need to see why a check hasn't cleared, for example, so it can be researched.

### **Miscellaneous Financial Procedures**

Pay all approved bills as soon as possible.

Deposit all receipts as soon as possible. Detailed information must be kept (check copies or detailed list) for each deposit made.

No checks are written without an invoice. Write the check number used for payment on all invoices.

### **Financial Reporting - Internal**

**How often should the board receive financial reports?** At each board meeting. Reports should be clear and easily understood. A written report should accompany a financial report to describe special financial activity. It is the responsibility of each board member to ask questions if anything in the financials reports are unclear.

**What kind of reports should be given at a board meeting?** A minimum of a Profit & Loss Statement and a Balance Sheet (see Terminology) should be provided for each meeting. Any special project/fund activity or budget information should also be available.

**What format should these reports be in?** See attached samples. An Excel format can be used for limited monthly transactions or Quickbooks for increased activity.

### **Financial Reporting - External**

**Form 990** – see also attached IRS 990 Series filing chart for adjustments in future years

Form 990 - Gross receipts of \$100,000 or more

Form 990 EZ - Gross receipts \$25,000 - \$100,000 and assets of less than \$250,000

Form 990 N - Gross receipts under \$25,000

### **Audit**

An audit is only required by the state (not by the IRS) for registered charitable organizations whose gross revenues are \$200,000 or more. Legislation is pending that would increase that limit to \$500,000, including additional exceptions which may be granted for some types of organizations by the state Public Charities division. For more information, contact Reed Harrington in the Public Charities office of the Connecticut Attorney General at 860-808-5318.

### **Donor Acknowledgement**

All contributions should be acknowledged with a thank you letter including the amount of the gift and the date received. A donor must receive this letter from a charity for any gift of \$250 or more to receive a tax deduction. The acknowledgement should also include whether any goods or services (such as mugs, t-shirts, or tickets, along with their estimated value) were provided in return for the contribution. A hard copy of all thank you letters must be kept on file for three years.

For additional information, see Compliance guide for 501(c)3 Public Charities

[www.irs.gov/charities](http://www.irs.gov/charities)

Go to ABC's for Tax Exempt Organizations where you will find the Compliance Guide

### **Internal Financial Controls**

There must be some sort of system of financial controls for the organization. While an effective system is not a guarantee that the organization will be successful, it will keep the right people informed about the organization's financial situation.

If an organization is small enough that there is just a Treasurer managing all financial transactions, there are still compensating controls that can be put in place to help assure that the organization's funds are being handled correctly. Choose the controls that are possible to apply to your situation:

- Checks are signed by someone other than the individual who writes them
- All checks require more than one signature, or checks require more than one signature for amounts over a designated amount
- The bank statements are mailed (or at least have on-line access) and reviewed by someone other than a check signer
- Financial reports are created by someone other than a check signer

## **Terms**

**Profit & Loss Statement** – also called an income or operating statement, is a summary of receipts versus expenses for a particular time period.

**Balance Sheet** – is a summary of the organization's financial position at any given time. It includes balances in bank accounts or endowment accounts, as well as pending receipts (receivables) and pending payments (payables).

A profit & loss statement represents a period of time, while a balance sheet represents a single moment in time.

**Unrestricted Funds** – those funds received that are not designated for a specific purpose

**Temporarily Restricted Funds** – those receipts that were given for a particular project, event, or purchase

**Accrual Basis Accounting** (IRS Compliance Guide) – income is recorded in the tax year earned (i.e. in the tax year in which a pledge is received, even though it may receive payment in a later year). It records expenses in the tax year incurred, whether or not it pays the expenses that year. The accrual method is typically used for non-profits.

**Cash Basis Accounting** – income and expenses are reported in the year they are received/expensed.