SMALL NON-PROFIT ORGANIZATIONS

FINANCIAL INFORMATION
AND
RECORD KEEPING

Small Non-Profit Organizations
Financial Information
and
Record Keeping
Index

SMALL NON-PROFIT ORGANIZATIONS
CRITICAL DATES/ISSUES

Critical Dates (Assuming a Calendar Year End)

Date	Description
January 31	1099s Issued
May 15	990/CHAR 500 Filed
July 31	Pension 5500 Due
December 1	Budget Adopted
December 31	End of Fiscal Year
Quarterly	Sales Tax Due

Critical Issues

Organization Officers have a fiduciary responsibility to perform "due diligence" in maintaining Organization assets and financial records.

Recommended controls:

- Two check signers required on all checks.
- The Bank mails monthly bank statements to the Organization President, who is not an authorized signer, and the Organization Treasurer.
- The Treasurer prepares monthly reconciliation of bank statements.
- The Treasurer provides periodic reports to the Board of Directors.
- Annual audit at conclusion of fiscal year.
- The Organization maintains a Conflict of Interest Policy.
- The Organization maintains a Records Retention Policy.
- The Organization maintains a Whistle Blower Policy.
- At the time of Transfer of Responsibility from the Treasurer to the succeeding Treasurer, the financial records should be reviewed.

FINANCIAL REPORTING

1. BUDGET

WHY BUDGET?

An annual budget is a powerful planning tool for your Organization. A budget must recognize the three competing needs which must be balanced to successfully complete the Organization's mission.

- The Organization must provide services in accordance with its mission. (Services)
- The Organization must recruit and retain competent employees. (Employees)
- The Organization must maintain fiscal integrity. (Fiscal Integrity)

No single need is more or less important than the other, as neglecting any one or placing more importance on any one will negatively effect the Organization's success.

HOW TO ESTABLISH BUDGET GUIDELINES

Your Organization's Strategic Plan and Annual Budget are very closely related. The Strategic Plan identifies and prioritizes the projects your Organization wants to accomplish. The Annual Budget represents the next step in this planning process. Developing the budget is actually identifying revenues and expenses necessary to implement the next year of the Strategic Plan.

Establishing guidelines up front helps focus the efforts of the budgeting process in the direction your Organization wants to go. It is recommended that the Organizations establish these guidelines before the budget is started. Some items to consider when establishing guidelines are:

- **Prioritization of Organization Projects**
  All projects identified by the Organization in its Strategic Plan may not be financially feasible to accomplish in the upcoming year. Establishing financial guidelines for receipts, disbursements, and net receipts helps to determine what can be done financially.

- **Dependence on a Single Revenue Source**
  Typically, Organizations reply on a single source of income. The budget process may stimulate ideas for other income producing activities to lessen reliance on a single source of revenue.

- **Maintaining Adequate Organization Reserves**
  There should be a way to measure the adequacy of the Organization's reserves. Too little reserves put the Organization at risk if there is an interruption to revenue or cash flow. Excess reserves could be used to expand programs or reward deserving employees. Consideration should be given to establishing a net asset policy.

WHEN TO DEVELOP A BUDGET

The Budget process should be commenced so that adequate time is allowed for preparation, review, and approval of the budget prior to the start of the next fiscal year.

If feasible, a budget broken down by quarter or month provides the Organization with a tool to track the financial performance of the Organization throughout the year. A monthly review of the actual budget performance allows the Organization to make adjustments during the year if needed.

2. HOW TO PROCESS CASH RECEIPTS AND DISBURSEMENTS

Small Organization records are normally on a "cash basis". This means that money received by the Organization is considered a Cash Receipt only when it is deposited in the bank, and money spent is considered a Cash Disbursement when a check is written. All cash receipts should be recorded and deposited as soon as possible and all expenditures should be recorded at the time they are made. The Organization records should be balanced once a month, and reconciled with the bank balance.

Cash Receipts

All funds (checks and cash) received by the Organization should be deposited as frequently as possible, but at least weekly. When the deposit slip is prepared, a listing should be kept of all checks deposited indicating the source of the funds, (i.e., the individual's name), and what the funds are for, (i.e., dues, meetings, etc.). The bank deposit receipt should be attached to this listing for future reference.

The deposit should be recorded as soon as possible. It will be recorded in both the cash account and account(s) for which the funds were deposited, (i.e., dues, meeting fees, etc.)

Cash Disbursements

When the Organization needs to pay bills, the bills or expense report should be approved by the authorized person and then given to the Organization Treasurer for payment. Once the check is written, the Treasurer should mark the invoice, "paid" and indicate the date paid, check number, account to be charged, and amount paid on the invoice. A special stamp can be ordered for this process. Bills should only be paid from original invoices, not from copies or statements. This helps prevent a bill inadvertently being paid twice. IRS guidelines should be followed for proper supporting documentation of expenses. Primarily these are:

- original receipts for all expenses over $25.00
- name fo all attendees and purpose of all meal expenses
- signature of the submitter
- signature of the approval
- the date

3. HOW TO ESTABLISH INTERNAL CONTROL FOR CASH RECEIPTS & DISBURSEMENTS

   It is recommended that an Organization set up internal controls over its funds. These controls are easy to set up and maintain, and they protect both the Organization and its officers.

   Cash Receipts

   All checks should be made payable to the Organization. NEVER accept a check made payable to an individual officer.

   Cash Disbursements

   It is recommended that the Organization establish and follow a formal, written policy for making cash disbursements. It is recommended that checks over a certain amount require two signatures (this is indicated on the signature cards given to the bank). The amount at which two signatures are required depends on the size of your Organization, and the amount of disbursement made.

   NEVER sign blank checks.

4. FINANCIAL STATEMENTS

   It is recommended that the Treasurer submit a monthly financial statement to the Board of Directors.

   A periodic financial report provides the Board of Directors with a tool for financial management of the Organization. It shows at a glance how the Organization is doing financially.

5. AUDITING

   Transfer of Financial Records from Treasurer to Treasurer

   When a new Treasurer takes office, all financial records should be given to the new officer.

   It is recommended that the Organization have its financial records audited annually even if there is no change in Treasurers. This audit can be done either by an independent accounting firm or by an audit committee appointed by the Board of Directors.

   Independent Audit

   The Board of Directors may engage an independent accounting firm to audit/review the Organization's financial records. For Organizations with large cash receipts, the option is recommended.

Self Audit

An Organization may not wish to spend the funds for an independent audit. This is especially true for small Organizations. In this case, the Board of Directors may want to appoint an audit committee.

The purpose of an audit is to express an opinion on the accuracy of the financial records/statements. It is recommended that the audit committee meet with both the outgoing and incoming (if there is a change) Treasurers and review the Organization's financial records. Following are some suggestions for questions to ask and items to verify.

- Verify that the bank statements are reconciled and that they reconcile to the cash accounts.

- Select one or two months and make sure all deposits recorded in the financial records show up on the bank statement and all cancelled checks returned with the bank statement are recorded in the financial records.

- Randomly select a sample of deposits and checks and make sure they have proper supporting documentation.

- If your Organization has a formal, written policy for cash disbursements, verify that the disbursements follow this policy.

- Verify that the financial report balances.

When the audit committee has completed the audit and feels that the numbers presented are correct, they should submit a written report of their findings to the Board of Directors.

If any irregularities are found during the audit, they should be reported in writing to the Board of Directors immediately.

TAX REPORTING

Internal Revenue Service

The Internal Revenue Service requires non-profit organizations to apply for exemption if their annual average gross receipts exceeds $5,000.

The Internal Revenue Service requires non-profit organizations to file an informational return within 4 ½ months of their year end. The form required can be determined below:

Form 990 -	Gross Receipts of $200,000 or more and/or Organization Assets of $500,000 or more.
Form 990-EZ -	Gross Receipts of up to $200,000 and/or Organization Assets of up to $500,000.
990-N (E-Postcard) -	Gross Receipts that are normally less than $50,000.

New York State Attorney General's Office

New York State requires a CHAR 500 to be filed if an organization has $25,000 or more in contribution revenue (note: governmental grants count as contributions for this requirement) and/or uses the services of a professional fundraiser. New York State regulations may also require an audited or reviewed financial statement based on revenue size. (Currently $500,000 or more for an audit and $250,000 to $500,000 for a review).

RECORD KEEPING

Financial and Program Activity Documentation

To avoid problems, in the event the IRS decides to question the Organization's tax-exempt status or review its tax return, (an audit), all Organization's should keep in a safe place all important documents relating to Organization's financial and program activities. These should include: (retain for time in parenthesis)

1. Bank Statements and Reconciliations (7 years)
2. A book of minutes (permanent)
3. Cancelled checks (7 years)
4. The Internal Revenue Service exemption letter (permanent)
5. Supporting data for income and expenses (7 years)
6. Contracts, leases, etc. (7 years)
7. Annual Financial Report and/or Audit Report (permanent)
8. All types of tax returns (permanent)