



# Treasurers Guide

**SECOND EDITION**

**FOR RELIGIOUS ORGANIZATIONS**

Rosalie Bond, *Author*

*Editors*

Elizabeth Muench

Katrina Smathers

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# *Introduction*

The second edition of the *PYM Treasurers Guide* has been revised to emphasize and clarify three pillars of a Treasurer's duties: Keeping Track of Information; Reporting to the Group; and Relating to the Outside World. Serious fiduciary responsibilities are undertaken on becoming a Monthly Meeting Treasurer. As Treasurer you are responsible for all of the funds collected and for any monies paid out. It is imperative that records of these matters be kept in good order. The Treasurer will need to report to the Meeting in such a way as to make the state of the Meeting's finances clear to all. These reports should not be boring interludes at Meeting for Business, but presentations that clearly show everyone the true financial position.

The Treasurer may be called upon in countless ways to deal with the outside world. Not all of them may apply to any single Treasurer, but payroll, taxes, insurance, sales, and complex audits are possible examples. This revised manual has been compiled to make it easier to understand the responsibilities of the job and to clarify questions that may arise in carrying them out.

The Monthly Meeting Treasurer renders invaluable service. Few activities in the Meeting keep you in such close touch with the entire meeting community, and few activities require a greater degree of responsibility. While the work is interesting and rewarding, it is also complex. The Treasurer often fills the role of an administrator or business manager for the Meeting. He/she must take care of a range of business matters, some routine and some unexpected.

The Treasurer works closely with the Finance Committee, although in some small Meetings this committee may not exist. In some large Meetings more than one person may share the Treasurer's tasks. The Treasurer can resolve minor matters, but more complicated questions require the Treasurer to present the matter to the Finance Committee and/or Meeting for Business and then implement the decision. In many ways the Finance Committee and the Treasurer depend upon each other. The Committee is a helpful resource to the Treasurer, and the Treasurer's advice is uniquely valuable to the Finance Committee.

It is necessary to keep accurate, current, and consistent records, not only to serve the present needs of the Monthly Meeting, but also to maintain and preserve the historical record. The Clerk and Committees need timely

advice as to the status of various accounts in order to meet current budgets and to plan future budgets. In addition, the records need to be available for examination on a schedule determined by the Finance Committee or the Monthly Meeting. The Meeting, the Committees, and the Treasurer are best served by an open relationship where the records are up to date, transparent, available for inspection and examination, and conform to set procedures. In situations where taxes are applicable, all requirements of federal, state, and local governments regarding record keeping and taxes must be followed without fail.

Each Monthly Meeting determines the term of service for a Treasurer. At the discretion of the Nominating Committee, the initial term is frequently extended. While the Treasurer is entrusted with serious responsibility, the job is a position that can be filled by a volunteer. The amount of time it will take depends on the complexity and size of the Meeting's finances. There is no doubt that time can be saved by using computer software to maintain records, produce reports, and deal with the outside world

Above all, you will find that service as Treasurer is very gratifying work.

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## KEEPING TRACK

Keeping track of the Meeting finances will require routines, discipline, patience, and accurate attention to detail. This section gives guidance on fundamental bookkeeping concepts and on more challenging situations that many Treasurers will encounter.

### BOOKKEEPING PRINCIPLES

The general topic of bookkeeping may seem complicated but it can be easily understood by the average person. In this section the subject is broken down into component parts so that it may be learned in the easiest, most painless way.

### ASSETS AND LIABILITIES

At the outset it is necessary to understand certain terms. The word asset refers to things that are owned. Examples are Cash, Securities, Land, Buildings, Vehicles, and Equipment. A liability is an obligation to others. Examples are Current Bills, Mortgages, and Loans. If on a given day all Assets are added together and all Liabilities are subtracted, the remainder is Net Worth. When accounting for non-profit organizations, the term Net Assets replaces Net Worth. **Assets – Liabilities = Net Assets**. Stated another way, **Assets = Liabilities + Net Assets**. The latter equation, called a Balance Sheet, is also known as a Statement of Financial Position. An example of these equations would be: If you have \$5,000 in the bank (Assets), you owe \$50 for telephone expense (Liability), and you have borrowed \$3,000 from a bank (Liability), your Net Assets are \$1,950.

ACCOUNT TYPE	IF ACCOUNT INCREASES	IF ACCOUNT DECREASES
Asset	Debit	Credit
Liability	Credit	Debit
Income	Credit	Debit
Expense	Debit	Credit

### DOUBLE ENTRY BOOKKEEPING

Double Entry Bookkeeping is a method of keeping track of financial data. It has been used since the Middle Ages. It is tried and true, and it allows you to collect and process information in a way that reduces the possibility of error, because every transaction is entered twice — once as a debit and once as a credit:

You will enter transactions in journals (books) in the order in which the transactions occur. The journals have several columns. There should be a column for the date, for an explanation/account name, for debits (DR), and for credits (CR). The debit column is always on the left and the credit column is always on the right in the United States. It is important to understand how the terms debit and credit are applied.



To illustrate: If you receive a contribution of \$100 on October 1,, debit Checking (Asset) \$100 and credit Contributions (Income) \$100. Checking is debited because you increased your assets when you deposited the money in the bank. If you pay a telephone bill, credit Checking (Asset) \$50 and debit Telephone (Expense) \$50. If you repay a loan, credit Checking (Asset) \$3,000 and debit Loan (Liability) \$3,000.

Suppose you receive a check for \$500 on October 3: \$200 for a contribution, \$25 for purchase of an old file cabinet, and \$275 for rent of an outbuilding. In a case like this you will want to split the transactions in order to show all the information. Debit Checking (Asset) for \$500. Credit Equipment (Asset) for \$25, credit Contributions (Income) \$200, and credit Rent (Income) \$275.

DATE	ACCOUNT/EXPLANATION	DR	CR
10/01/07	Checking	\$100	
	Contribution		\$100
	Telephone	\$50	
	Checking		\$50
	Loan	\$3,000	
	Checking		\$3,000
10/03/07	Checking	\$500	
	Equipment		\$25
	Contribution		\$200
	Rent		\$275

You can see that, however things break out, the debits will always equal the credits. This is the safety feature built into the Double Entry System. If the debits and credits are not equal, you have made an error and you can correct it on the spot. If you had made single entries, and entered the receipt from the file cabinet as \$35 instead of \$25, it would be much harder to locate. You would only notice the problem at the end of the month when the bank statement did not reconcile with your books, and then you would have to waste a lot of time finding the error.

If you are unfamiliar with Double Entry Bookkeeping, it may seem tedious at first to translate everything into debits and credits. This phase will soon pass when you realize that it is totally logical, and saves you from hard-to-trace errors.

The above information is intentionally simplified to illustrate how a Double Entry System works. The sections on **Inflows** and **Outflows** will expand on Double Entry Records beginning on page 13.

The headings (Assets, Liabilities, Income, and Expenses) will have as many individual accounts as are needed to produce accurate reports. For example, under Income you will certainly have Contributions Income, and you may also have Interest Income, Dividend Income, Rental Income, etc. Under Expenses you will choose the reporting categories that are most useful to your Meeting. You might have just Office Operations, or you might choose to have separate

accounts for Postage, Copying, Office Supplies, etc. depending of the level of detail your Meeting needs and expects.

## CHART OF ACCOUNTS

A Chart of Accounts is a list of all of your bank accounts and other assets, liabilities and categories of income and expenses with a number assigned to each category. A Chart of Accounts is vital for a Meeting of any size; the actual choice of accounts will depend on your Meeting's size and complexity. If you are using a computer system, a Chart of Accounts will be required. If you are keeping records in books by hand, you will quickly appreciate the shorthand of the numbers. A Chart of Accounts will give uniformity to the records from year to year and from Treasurer to Treasurer. By convention each type of account is assigned numbers in a series.

Assets 100 – 199

Liabilities 200 – 299

Net Assets 300 – 399

Income 400 – 499

Expenses 500 – 799

You will want to keep like items together. If you decide that your checking account will be number 100, do not make petty cash number 101. Later you may wish to have additional checking accounts categories, so make petty cash 105. By skipping numbers you may add new accounts when they become necessary.

Below is a sample Chart of Accounts. It is not meant to be definitive, but to be an example of how it works. Careful design of a Chart of Accounts specific to your Meeting will enable you to report meaningfully without wasting time on very small separate items. If you already have a Chart of Accounts, please consider this one carefully. There may be parts that would be useful to the needs of your Meeting. If you have restricted funds or receive restricted income, it can be helpful to code the asset, income, net asset, and expense accounts similarly so that you can easily see the connection. For example, see the Wells Education Endowment in the Chart of Accounts below: Assets: Permanently Restricted/Wells Education Endowment (115); Net Worth: Restricted Net Assets/Wells Education Endowment (315); Income: Wells Education Endowment (415); Expenses: Tuition Expense/Wells Education Endowment (515).

## SAMPLE CHART OF ACCOUNTS

<b>ASSETS</b>			
100	Checking	410	Interest Income
105	Petty Cash	413	Meetinghouse Repair Fund Income
113	Temporarily Restricted: Meetinghouse Repair Fund	414	Meetinghouse Roof Repair
115	Permanently Restricted: Wells Education Fund	415	Wells Education Fund Income
120	Accounts Receivable	418	Facilities Rental Income
121	Pledges Receivable	420	Burial Ground—Income
125	Short Term Investments (ex. Money Market Accounts)	425	Rental Income—Leases
130	Long Term Investments (ex. Friends Fiduciary Accounts)	430	Fund Raisers
140	Furniture	435	Sales
143	Antiques & Art	440	Other Income
145	Inventory—Items Purchased for Resale	<b>EXPENSES</b>	
150	Equipment	500	Advertising
155	Buildings	505	Bank Charges
160	Rental Property	513	Meetinghouse Repair
170	Vehicles	514	Meetinghouse Roof Repair
<b>LIABILITIES</b>		515	Tuition Expense/Wells Education Fund
200	Accounts Payable	520	Burial Ground Expenses
210	Current Notes Payable	521	Charitable Contributions
220	Long Term Notes Payable	522	Contributions to Quarterly Meeting
225	Sales Tax Payable	523	Contributions to Yearly Meeting
230	Payroll Taxes Payable	530	Education
<b>NET WORTH</b>		535	First Day School
300	Unrestricted Net Assets	540	Hospitality
313	Restricted Net Assets/ Meetinghouse Repair	545	Insurance
315	Restricted Net Assets/ Wells Education Endowment	550	Newsletter
330	Gain (Loss) on Sale of Assets	555	Office Supplies
<b>INCOME</b>		560	Overseers
400	Contributions—Members or Attenders	565	Payroll
405	Dividend Income	567	Payroll Tax
		570	Postage
		573	Purchases for Resale
		575	Repairs & Maintenance
		580	Telephone
		585	Utilities

## CASH VS. ACCRUAL ACCOUNTING

Most small Meetings use the **cash basis** for accounting. This means that income is recorded when it is received and expenses are recorded when they are paid. This system is adequate when income consists of contributions, earned interest, and perhaps rental income, and expenses are the usual operating costs (utilities, rent, janitorial and office supplies, etc.) that are paid routinely within 30 days of receipt of the bill. To illustrate this, suppose that a member gives the Meeting a check for \$100 in April, and pledges to give \$300 more before the end of June (end of fiscal year). On a cash basis, in April you would debit Checking \$100 and credit Contributions \$100. You receive the balance on July 10. At that time you would debit Checking \$300 and credit Contributions \$300.

When using a **pure cash basis** of accounting, only financial assets and liabilities are shown on the Balance Sheet (Statement of Financial Position) and only transactions that result in changes to financial assets are shown in the Income Statement (Statement of Activity) (see page 27 for sample Balance and Income Statements). Any transaction that adds to non-financial assets such as property improvements shows up only as an expense in the period it is made. Any sale of property shows up only as income. There is no way of reflecting the continuing value to the organization of furniture or other physical assets or of depreciating them to reflect their slow deterioration and need for future renewal or replacement.

For this reason many organizations use a **modified cash basis** of accounting. Under the most commonly used modified cash system, physical assets such as real estate, furniture, equipment, and transactions that affect them are reflected in the financial statements, but more complex transactions such as prepaid expenses and bills payable generally are not.

Meetings with affairs that are complex (specifically including prepaid expenses, Accounts Payable, and Restricted Funds), and/or intended to be audited by an accountant, are advised to keep the records on an **accrual basis**. This means that income is reported when it is earned and expenses are recorded when they occur. Let us follow the example in the above paragraph to show how it would be treated differently on an accrual basis. You would still debit Checking \$100 in April, but you would also debit the Asset account Pledges Receivable \$300 and credit Contributions \$400. In July you would debit Checking \$300 and credit Pledges Receivable \$300. Under this system you would end the fiscal year with a balance in Pledges Receivable, but your income would be reflected in the fiscal year for which it was actually intended and promised. On a cash basis your income would be understated in the first fiscal year, and if this person continued to contribute, it would be overstated in the second fiscal year.

Cash accounting is simple, straightforward, and adequate for the needs of many Meetings. It is also possible to use cash accounting for interim periods, and then make adjustments at the end of the year: to show changes to physical assets that occurred during the year, to add outstanding receivables and payables, and to make a yearly entry for depreciation of long term assets. Before the records are examined, it would be necessary to disclose any variations in accounting method and exactly how these variations occurred. Accrual accounting gives a more exact picture of the financial situation.

## GAAP, GAAS, AND FASB

The accounting profession is governed by Generally Accepted Accounting Principles (GAAP) and Generally Accepted Accounting Standards (GAAS) as established by the Financial Accounting Standards Board (FASB). The purpose of these principles and standards is to provide “credible, concise, transparent, and understandable financial information.” GAAP and GAAS exist to provide a consistent language and framework for all financial statements so that statements from all organizations are based on a universal set of rules. Financial statements drawn up by professional accountants must conform to GAAP and GAAS, and all other statements should conform. Suggestions in this manual will guide the Treasurer to compile information in a way that fits easily into this framework.

The Financial Accounting Standards Board (FASB) is an independent organization that exists to “establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information.” FASB statements provide authoritative and invaluable guidance and are available at [www.fasb.org](http://www.fasb.org).

## COMPUTERIZED VS. HAND KEPT SYSTEMS

When designing a system, the criteria to be considered include how the system meets the particular needs of your Meeting, the importance of following generally accepted accounting principles (GAAP), and the ease with which the system can be transferred to a new Treasurer. Perhaps the present Treasurer is totally at ease with hand posting the data. Following standard bookkeeping procedures and working with a good Chart of Accounts should make it relatively easy for a new Treasurer to convert the information to a computerized system.

Treasurers are strongly urged to use a computer with accounting software. There are a number of accounting software systems that are both inexpensive and very easy to use. They are based on Double Entry Bookkeeping. QuickBooks and Peachtree are examples. While these programs are easy to learn, they may require some training to get started. Many Meetings in Philadelphia Yearly Meeting use QuickBooks, and training sessions are offered periodically. These sessions are open to Treasurers from other Yearly Meetings as well. Accounting software saves time because it automatically makes math calculations. It also makes easy work of bank reconciliation. In addition, with just a few keystrokes it sorts information and creates reports. The software will also compare accounts from year to year.

All these things can be done by hand, but with a lot of time and patience. If there is any way that you can gain access to a computer, it is to the advantage of the Meeting and the Treasurer to change to a computer system. There is no way that you could access information and answer detailed questions as fast as the computer.

## RECONCILING THE BANK STATEMENT

If you are using a computer system follow the easy directions in the software.

If you have a hand kept system, use the following procedure:

1. List the balance the bank gives on the day of the statement
2. Add outstanding deposits
3. Subtract outstanding checks
4. List the new total

Next you will need to:

1. List your book balance (balance from your last month's reconciliation) on the last day of the previous month
2. Add all receipts during the month
3. Subtract all disbursements during the month
4. Subtract bank charges on the bank statement if not included in 3
5. List the new total

The two new totals should be the same. If they are not, you must analyze the situation until you discover the discrepancy. Do not fail to keep a paper copy of each month's bank reconciliation whether done by hand or computer.

## FINANCIAL EXAMINATIONS AND INTERNAL CONTROLS

Examinations and internal controls should not create anxiety for the Treasurer. They provide an opportunity for learning and improvement and exist to prevent major errors from occurring. If minor errors are found, they can be corrected. A good examiner is one who has both the skill and the willingness to see and suggest better, easier ways of doing the work. The examiner must be someone who is independent and has financial experience. This means that the examiner must not be related to the Treasurer by blood, marriage, or employment.

Every Meeting should have the Treasurer's records examined on a regular basis. Assets and liabilities must be listed accurately and completely. The overall accuracy of the records will be tested and verified. This process includes obtaining documentation that donations and other income recorded have actually been received, that restricted income has been properly accounted for, that expenses recorded have been paid, that taxes, if any, have been paid, that payroll has been accurately calculated, and that instructions, policies, and procedures from the Meeting for Business during the year have been followed. Crucial payments such as insurance, payroll, and taxes should be reviewed not only for having been paid, but for all established procedures that enable them to be paid in a timely fashion.

Some Meetings have a stepped down version of examination that means an internal financial review yearly and a full audit every five years.

Please refer to the section on Financial Examinations starting on page 31 for a fuller description of the purpose, process, and levels of examination that may be indicated.

Internal controls are a part of any carefully designed accounting system. Controls are policies and procedures calculated to protect both the Treasurer and the Meeting against fraud and to ensure openness and accuracy of records. The use of correct procedures protects the Meeting against problems that could be caused by carelessness in handling its funds and against the very rare instance of deliberate dishonesty on the part of those handling Meeting money. Periodic consultation with outside accounting experts, through a CPA's audit or accountant's review, can maintain the Meeting's confidence in the accuracy of the reports it receives, the work of the Treasurer, and the integrity of its entire fiscal operations.

### BACKUP OF RECORDS

It is extremely important to back up records on a computer system. If you make entries weekly, that is the time to do it. This is not an optional activity. If you have a hand kept system, you should make copies of your entries at least monthly. The copies should be stored separately from the books, in case of fire or other disaster.

Later in this part of the Guide there are examples of internal controls. Note in particular the sections on **Tracking Inflows**, **Tracking Outflows**, **Managing Petty Cash**, and **Managing Credit Cards**, and the categories under **Reports and External Requirements**. Internal controls exist to make the work as simple as possible while discouraging dangerous shortcuts, to validate the hard work of the Treasurer, and to simplify preparations for review or audit.

### TRACKING INFLOWS (RECEIPTS)

If you are maintaining a manual set of books, you should enter your cash receipts in a multicolumn Cash Receipts Journal using the category numbers in your Chart of Accounts. This will make it easier to total the various sources of cash at the end of the month. Enter all information in your cash receipts journal. (Be sure that your debits equal your credits in these entries.)

### SAMPLE PAGE FROM CASH RECEIPTS JOURNAL

Date	Acct/Explanation	DR					CR
		100	400	415	420	425	430
10/4/07	S. Smith	\$800	\$800				
	Q. Jones	\$350				\$50	\$300
	Bank of America	\$75.23		\$75.23			

Deposits should be made at least weekly. Each check should be endorsed for deposit as soon as it is received.

Either list each check on the deposit ticket by the name of the contributor or payer, or photocopy the checks and list a total on the deposit slip. You should include a calculator tape clipped to the checks. If you make a photocopy of the checks, clip this with your copy of the deposit slip. The reason to photocopy the checks is twofold. You have created a good record to answer

questions from donors, and if disputes occur, for any reason, there may be additional information on the check to provide evidence to resolve them.

If the deposit includes both checks and cash, be sure to list the cash separately. Do not photocopy cash: it proves nothing and wastes time. Use a cash receipts book to record all cash and make sure that a copy of the receipt is given to the person who gave the cash. The best type of receipt book is one in which two additional copies are automatically made when you write a receipt. One is for the bank deposit, one is for the donor, and one stays in the receipt book. Any office supply store will have these books.

Always verify all totals before taking the deposit to the bank.

### NON-CASH RECEIPTS

When you receive assets that are not cash or checks, use a separate journal page to record them. At this point they are not Income. They are Assets that increase Net Worth. The process of recognizing the resulting increases in net worth as income can be tricky and depends on several factors. Unless you are familiar with this process and comfortable applying it, seek competent advice.

#### SAMPLE PAGE FROM NON-CASH RECEIPTS JOURNAL

Date	Acct/Explanation	DR			CR
		130	143	150	400
10/1/07	24 shares Wachovia @ \$30.21	\$725.04			
	Received from W. Taylor, III				\$725.04
10/3/07	Tall Case Clock c. 1820				
	Cabinetmaker, J. Jones		\$8,500		
	Received from Y. Pashti				
	Appraised at \$8,500				\$8,500
10/14/07	Dell Precision 340			\$849	
	Received from S. Wong				\$849

According to IRS regulations, the Meeting may not place a value on non-cash assets for the donor. When acknowledging a gift of non-cash assets, the Meeting should not include a statement about the monetary value of the asset in the letter thanking the donor, but should describe the donation in detail. Please see the **Forms** section of this manual for a sample letter for non-cash donations.

The most frequent source of cash receipts will be checks from members and attenders for their annual contributions. In the example of a cash receipts journal on page 13, you will see that a contribution for \$800 was received. In the Acct/Explanation column, the contribution is attributed to S. Smith. In this way you have made a record of the amount and date of the contributions of each individual. A computerized system will include a way of tracking each individual's contributions. It will save hours of a Treasurer's time.



Annual contributions are an extremely important category. They may well be the Meeting's main source of revenue. The Meeting may be fortunate enough to have a large income from endowment or other sources, but it is contributions that represent the vitality of the Meeting community.

## ANNUAL CONTRIBUTIONS

In order for a donor to claim a charitable deduction for any gift, the IRS requires the charity to send an acknowledgement of the gift. Previously this requirement applied to donations of \$250 or more. The law has been amended, effective January 2007, to apply to all donations. In particular, it applies to cash donations such as those received to finance minor projects. Because the gift was in cash, the donor will not possess any bank record of the gift. Written acknowledgement is critical to prove that the gift was

received and that it was a gift and not a payment for goods or services. Of course, cash donations from unknown donors cannot be acknowledged.

The acknowledgement must include:

- Name and address of the organization
- Date of the acknowledgement
- The donor's name
- The date and amount of the gift
- A statement with the language, "any goods or services that you may have received in connection with this gift were solely intangible religious benefits."

You should also advise the donor to retain this letter for tax purposes.

A sample acknowledgement letter can be found in the **Forms** section.

Contributions of any amount show support and commitment to the Meeting and the Society of Friends and must be acknowledged. For simplicity you can use the form of the IRS acknowledgement. Add a personal line or two at the bottom of the letter. Every person is more than dollars. If the donor is unknown to you, mention an item of news from recent Meeting activities. If your Meeting has a newsletter, it might be nice to enclose the latest copy and to add the donor to the mailing list. Nonresident or shut-in members keep their interest and loyalty when they have a reason to continue to feel part of the Meeting.

## TYPES OF FUNDS

### UNRESTRICTED (GENERAL) FUNDS

In most cases the money that is given to the Meeting is **Unrestricted**. This means that the Meeting may use it for any purpose it deems fit. These funds are better known as **General Funds**.

The use of funds can be limited in several ways. It is usually not necessary to open special bank accounts for each fund whose use is limited to a specific purpose; you can track them by adding an item to the Chart of Accounts.

Example: Add the category, 414, Fund for Meetinghouse Roof Repair

### SPECIAL (DESIGNATED) FUNDS

**Designated Funds** are funds that the Meeting sets aside for a certain purpose from unrestricted funds. Funds that are designated can become undesignated simply by action of the Meeting. Perhaps the Meeting decides to spend \$5,000 for parking lot repairs and designates funds to do this. Suddenly a storm causes unprecedented tree damage. A substantial amount is not covered by insurance. The Meeting could defer the parking lot project and remove the designation, making the funds undesignated. It can then designate the funds to repair the tree damage, if it so chooses. All such actions should be clearly minuted.

### DONOR RESTRICTED FUNDS

The term **Restricted** means that the donor has qualified the gift by naming a specific use for the funds. Only the donor or a court can permit the funds to be used for a different purpose. There are two types of restricted funds: temporary and permanent. It is important to record the date and donor, and to detail the restrictions that apply to donated special funds. Some special funds are hybrids, containing a mix of restricted monies and monies designated by the Meeting.

**Temporarily Restricted Funds** are given for a specific project and the entire donation can be used. In the Sample Chart of Accounts (see page 9), the Fund for Meetinghouse Roof Repair is temporarily restricted. When the roof is repaired, the fund is closed. If a balance remains in a temporarily restricted fund from funds set aside by the Meeting itself, after the specified project has been completed, that balance goes back into the unrestricted general fund. If all or a portion of the fund was donor restricted, the donor should be consulted as to the disposition of the remainder of the donor's share. The donor may request that the remainder be returned, or restricted to another project, or placed in the unrestricted general funds. As a practical matter, if a project is financed by a mix of restricted and unrestricted funds, always spend the restricted funds first.

**Permanently Restricted Funds** can also be called endowment funds. Only the interest and/or appreciation can be used. The use can be either unrestricted or restricted depending on the stated wishes of the donor. The principal is held in perpetuity. Income and expenditures from these

funds must be accounted for separately so that transactions can be easily identified. The net value of a permanently restricted (endowment) fund will appear on the Balance Sheet (Statement of Financial Position) as an asset, and also as part of your restricted net assets. See Wells Fund for Elementary Education (415) in the Chart of Accounts.

In the example below, fund income is placed in the Checking account and the Income account for the Wells Endowment is credited, making it easy to identify changes relating to the fund.

Cash Receipts					
Date	Ck#	Explanation	Acct	DR	CR
4/30/07		Wells Education Fund Income	415		\$3,456.25
		Investment Income/ Wells Education Fund	100	\$3,456.25	

When a tuition payment is made for a child, Checking is credited and the Expense account relating to the Wells Endowment is debited.

Cash Disbursements					
Date	Ck#	Explanation	Acct	DR	CR
04/15/07		Tuition Expense/Wells Education Fund	515	\$1,275.23	
	4423	Sandy Spring Friends School	100		\$1,275.23

The Meeting's duty is to accomplish, as fully as possible, the specific purpose of the fund. If the original purpose of the endowment becomes frustrated or obsolete, the courts can be petitioned to change the purpose to another activity that is as close as possible to the original intent. This is the only way to apply permanently restricted funds to another use.

If your meeting has permanently restricted funds, you need to be aware that states may have special laws governing the management of such funds. If there are no restrictions by the state, and if there are no stipulations by the donor, then "gains and losses on investments of a donor restricted fund are changes in Unrestricted Net Assets" (FASB Statement 117). In Rhode Island, permanently restricted funds must be maintained at the original purchasing power of the fund, and, therefore, a portion of the interest would be permanently restricted. Pennsylvania also has a law governing the distribution of funds, so as to maintain the "long term preservation of the real value of the assets." It is important to seek qualified advice about state laws on permanently restricted funds.

## RESTRICTED FUNDS THAT CAN BE CONSIDERED LIABILITIES

Suppose that money is collected for a future event such as a bus trip or a conference. If the event is cancelled, the money will be returned to the subscribers. Therefore, during the time the money is held, prior to the event, the money is accounted for as a liability because it is theoretically uncertain that the event will take place. When the event occurs, the collected money becomes income.

## GIFTS OF APPRECIATED SECURITIES

Tax laws have made it advantageous to transfer appreciated securities to non-profit organizations. This is how it works. Someone decides to donate \$30,000 to the Meeting. This person holds stock valued at \$30,000. He/she purchased the stock years ago for \$10,000, so if it were sold to make the donation the donor would be required to pay capital gains tax on \$20,000. However, the stock can be transferred to a non-profit organization at its present value (\$30,000). The donor avoids capital gains taxes because the gain is not realized by him/her. The donor receives credit for a \$30,000 charitable donation, and the charity receives the securities at the appreciated basis.

Please be aware, however, that the IRS does impose conditions on these gifts. The charity must acknowledge the gift. The acknowledgement must include the information listed under **Annual Contributions**. In addition, if the gift has a value of over \$500 the donor must be advised to include IRS Form 8283 (Non-Cash Charitable Contributions) with his/her tax return. Items valued above \$5,000 require an appraisal on **Form 8283**. Publicly traded securities are an exception to the appraisal requirement. Stock from a closely held corporation does not require an appraisal if the stock is valued at less than \$10,000, but if it is valued above \$5,000, Section B of Form 8283 must have the appraisal summary filled in .

Usually there will be no goods or services provided in exchange for a donation, but, for the purpose of illustration, let us imagine this situation. The Meeting has in storage a sewing table that was donated by the above donor's great-grandmother. The donor asks for the table at the time of \$30,000 stock transfer, and the Meeting agrees to give it to the donor. In this case the acknowledgement letter must state that the donor has received a small walnut sewing table whose fair market value is (say) \$400. Therefore the amount credited to the donor for charitable deduction purposes is \$29,600. Should the value of the returned item (table in this case) be over \$500.00, the Meeting, as owner, should get an appraisal.

The Meeting should have a stated policy about the disposition of donated securities. Some Meetings require that all securities received are to be sold immediately upon receipt from the donor. In that situation the Meeting will receive the proceeds as a check from the brokerage firm. The Meeting must send the donor an acknowledgement of the full value of the stock as of the date that the stock enters the Meeting account. On this date title to the security legally passes to the Meeting and the donor loses control over it. The actual amount will usually differ from the gift value due to brokerage charges, sales commissions, transfer taxes, and changes in market value. A Meeting may wish not to sell donated securities but to retain them in its own brokerage account. In that case the Finance Committee would make investment recommendations to the Meeting.

## OTHER DONATIONS OF ASSETS

Donations of other assets (**tangible property**) such as real estate, furniture and equipment, or vehicles are acknowledged in the same manner as appreciated securities. For items valued at over \$5,000 the donor must provide a professional appraisal. Both the appraiser and the charity must sign IRS Form 8283. Please reread the section on **Appreciated Securities** for additional clarification.

If any property requiring an appraisal summary on IRS Form 8283, Section B (including stocks from a closely held corporation) is sold within three years after the date of the contribution, the charity must file IRS **Form 8282** within 125 days of the disposition.

The Meeting needs a policy on **pass-through donations**. It is best to have a policy in place to provide clarity for what can become a complex situation. Someone might make a donation to the Meeting (tax deductible) and request that the Meeting forward that amount to an entity that does not qualify as a charitable organization, or to a specified individual engaged in a project that the donor wishes to support. Under IRS rules, such pass-throughs are in general in violation of the Meeting's tax exempt status and should not be permitted. However, the Meeting may decide to give its support to a new project developed by members. If the project is consistent with the overall goals and values of the Meeting, and if the project is specifically authorized by a minute, the Meeting, acting as a fiscal agent, may accept these pass through donations. Consult the IRS' publications for exempt organizations for more information on what it means to be a fiscal agent and the limits on how much of its budget a tax exempt organization can pass through to a non-tax exempt organization. Violations of the IRS rules could jeopardize the Meeting's tax exempt status. All donations by the Meeting to another organization should be approved by the Meeting either as part of the approval of the annual budget or in a separate minute of Meeting for Business during the year.

The Meeting can also choose to serve as a **fiscal agent** for specific projects that do not have their own tax exempt status. For example, a local interfaith peace group may be formed that will need to receive and disburse funds for its activities, but will not have its own IRS tax exempt status. The Meeting may serve as its fiscal agent, enabling donors to make tax-deductible donations to the group. In another possible situation, while most grants from foundations and similar sources are made to non-profits, an individual might receive a grant from which others would need to be paid to perform services. The Meeting might take on a fiscal agent role for this grant, to relieve the individual receiving it of unfair tax burdens. The fiscal agent is responsible for administering and disbursing all funds. Only projects that are closely allied with the concerns of the Meeting should be considered. Before taking on the role of fiscal agent, the Meeting should agree on a specific formal minute stating how the purpose of the project is closely related to the purpose of the Meeting. The additional work—for the Meeting in providing oversight and for the Treasurer in handling the funds—will need to be evaluated before the Meeting takes on a fiscal agent role.

## ACCOUNTS RECEIVABLE

Money owed to the Meeting is classified as **Accounts Receivable**. Possible sources of receivables are pledges of contributions, interest income due, or refunds due. Modified cash systems book them only if they are very large. Please reread the section on **Cash vs. Accrual** accounting for an understanding of how the accrual method gives the most precise statement of the financial situation even if it generally omits small accruals until the end of the year.

If you are using cash basis accounting you will not be concerned with accounts receivable; however, there can be exceptions, as noted in the **Cash vs. Accrual** section under modified cash accounting methods.

### **Pledges Receivable**

It is likely that some contributions will be received as pledges to be paid over a period of time declared by the donor. Because pledges are not legally enforceable, they should be accounted for as a separate category.

## TRACKING OUTFLOWS (DISBURSEMENTS)

### BUDGET—THE FIRST AND MOST IMPORTANT PRINCIPLE

The budget approved by the Meeting is the Treasurer's authorization to disburse funds. Disbursements above or outside the budget should be made only in accordance with either a standing written policy or a special minute of the Meeting.

A budget is an important financial management tool. Properly prepared, it reflects a realistic expectation of income and expenses for the current fiscal year based on the Meeting's vision of its work and its past experience in realizing that vision. During the year the Meeting can use the budget to monitor its progress toward the financial goals it set for itself, and at the end of the year it can evaluate its accomplishments, or lack thereof, in this area. Allocating financial resources, through the budget process, in a way that best responds to the Meeting's priorities demands thoughtful discernment, first by the Treasurer and Finance Committee, and then by the Meeting as a whole.

### ROUTINE DUTIES

All payments must be made by check. The only possible exception is when there is a petty cash fund for minor expenses. If checks are manually produced, it is important to get self-carbon checks or use a system such as "Safeguard" that automatically makes a carbon copy of the check in the journal and also provides a duplicate copy of the check. Self-carbon checks are more costly than ordinary checks, but the accuracy in recording and the back-up information they provide are extremely valuable.

The Treasurer is usually the person authorized to sign checks, with one or more alternates who would sign in case of absence or incapacity.

Checks are always numbered. Use them in order. If a check is spoiled, write "VOID" across it and staple it in the appropriate place in the check register. Never destroy checks that you did not use or voided. Never sign a check before filling it out. Never prepare checks before there are funds to cover them. Holding checks to mail at a future date will lead to confusion.

If possible, always pay from original invoices, not monthly statements. For all but routine expenses, the invoices need to be approved by signature of the appropriate person (Clerk, Committee Chair, etc.). When paying bills, mark each invoice with the date paid and the check number. Invoices provide documentation for the purpose of the expense. Keep paid invoices on file. Consulting a file of paid invoices can prevent inadvertently paying the same bill twice.

If you receive a billing statement for which you have no invoices, follow up on the situation until you have obtained the invoices.

You may on occasion receive an invoice from an unincorporated individual or business (or a lawyer, incorporated or not) for services rendered. An example might be that the Meeting needs some relatively minor painting work. Instead of hiring a contractor, the Meeting employs a skilled individual to do the work. You will need this person/agent to fill out an IRS W-9 form.

You need to report this information to the person/business and to the IRS on a 1099-MISC form the following January. Sums paid to an individual that total less than \$600 in a calendar year do not need to be reported on a 1099-MISC form. However, the W-9 form should be filled out the first time a person does work for the Meeting each year, because the individual may perform several services during the year that collectively total \$600 or more.

If an individual has paid for Meeting goods or services from personal funds and claims reimbursement, a receipt must be presented to the Treasurer when reimbursement is claimed. In addition there should be a **written request for payment**. If your Meeting does not presently have this policy, it may seem like a bother to submit written requests. Please be mindful of the fact that accounting controls are for the benefit and protection of everyone concerned and need to be followed without fail. See the **Forms** section for a **Check Request Form**. Keep a supply of these forms on hand to simplify following this procedure.

If you are using a manual system, you will need multicolumn accounting paper (as for other journals). Note the example below.

Date	Ck#	Explanation	DR				CR
			505	521	540	555	100
6/15/07	4501	Gaylord Bros., Inc.				\$ 23.26	\$23.26
	4502	Free Soup Kitchen		\$25			\$25
	4503	VOID					
	4504	Yummy Bakery			\$48.96		\$48.96
6/31/07	4505	Bank of America	\$2.50				\$2.50

### MANAGING PETTY CASH

Some Meetings with a busy office may find it practical to establish a Petty Cash account of \$100 or less for minor purchases. The advantage is that it allows people to be quickly reimbursed, or not to have to advance their own money for small purchases. It also eliminates the need for you to write many checks for very insignificant amounts. The disadvantage is that without strict controls, money can disappear and confusion can reign.

1. Decide on the amount you wish to maintain as a Petty Cash Fund. This amount should cover Petty Cash expenses for a month.
2. Write a check to Petty Cash (never to yourself!) for that amount. Take the check to the bank and endorse it with your name on the back and present it to the teller for cash. Debit Petty Cash and credit Checking.
3. Place the Petty Cash in a secure location, and grant access to a definite and limited number of persons.
4. If cash is taken to make a purchase, a note must be left in its place with the name, date, amount, and purpose.



5. When a purchase is made with Petty Cash, a receipt for the purchase, clearly marked for the purpose and signed by the buyer, must be returned to Petty Cash with any change that is left over from the purchase.
6. On a regular schedule verify that the total of the receipts plus the cash in Petty Cash equals the amount of the original Petty Cash Fund.
7. Do not allow:
  - a. Personal checks to be cashed from Petty Cash.
  - b. Anyone to borrow money from Petty Cash.
  - c. Anyone to have a payroll advance from Petty Cash.
8. At the end of the month total all receipts and write a check to Petty Cash for that amount. Cash the check and put the money in the Petty Cash box. You should finish with the exact base amount of Petty Cash on hand.
9. Suppose you have receipts for \$7.40 for stamps; \$2.29 for a half-gallon of milk; \$5.96 for crayons; \$10.96 for epoxy glue; and \$4.49 for paper clips. The diagram below shows the treatment on the books.

### MANAGING CREDIT CARDS

Because of the now universal acceptance of payment by credit card, it may be practical to issue a credit card to someone such as the Meeting Clerk or an Executive Secretary.

			DR				CR
Date	Ck#	Explanation	535	540	555	570	100
8/31/07	4511	Replace Petty Cash	\$5.96	\$2.29	\$15.45	\$7.40	\$31.10

Reasons for a credit card might include:

- A need for a purchase exceeding the value of the Petty Cash Fund
- A repair part for equipment not locally available
- Circumstances making it unreasonable for a purchase to be paid in advance by an individual and reimbursed later by the Meeting.

Reasons against having a credit card:

- Opportunities for abuse
- Loss of card.

Some protective policies should include:

- Restrict the credit card debt limit.
- Establish a rule that all signed receipts and invoices must immediately be turned over to the Treasurer.
- The appropriate committee person must initial the documents, if committee authorization is involved.
- Statements should be compared to receipts handed in.

- Statements should be paid in full in a timely way to avoid fees.
- If the procedures are not followed, get authority to cancel the card.

When posting the transactions, credit the cash and debit the appropriate expense account(s).

## **TRANSFERS**

There may be practical reasons to have more than one bank account. The most likely situation would be that the Meeting has both a checking and a savings account. To open the new account you debit the new account and credit the main account for the amount being transferred. If these were designated or temporarily restricted funds and the purpose of the designation or restriction is ended or fulfilled, you would close the account by reversing the above entries.

If money accumulates in a checking account in excess of current needs or uses, and there is no Meeting policy in place, you need to seek the advice of the Finance Committee or Meeting for Business as to how to invest for a safe and reliable return. The length of term of the investments will be determined by the anticipated needs of the Meeting. Money needed in the next five years or so might go into a savings account or a certificate of deposit. Long term investments should probably be in a mutual fund or brokerage account containing a balance of stocks and bonds.

Friends Fiduciary Corporation is a resource available for long term investment guided by Quaker principles. If your Meeting has or receives funds (endowment) that should be invested long term, the Meeting may wish to consider the services of FFC.

## **ACCOUNTS PAYABLE**

If you choose to maintain your books on the accrual basis, you will need to use Accounts Payable. If the Meeting contracts for work that is finished at the end of October, the liability to pay occurs at that time. You may not be billed until mid-November, and you may not prepare a check until December 1. Using accrual accounting you will debit the expense account (Repair and Maintenance) and credit Accounts Payable in October. Debit Accounts Payable and credit Checking in December, when you write the check. Using cash accounting you will do nothing until December when you pay the bill. At that time you will record the expense by a debit to Repairs and Maintenance and a credit to Checking. The cash method is less accurate because your reports in October and November will not show that the Meeting is actually obligated to pay this amount. If your books are on the modified cash basis, you may accrue large or significant payables. Payroll taxes are the most common accrual in modified cash accounting.

## **PREPAID EXPENSES**

Prepaid expenses are treated differently if you are using the cash or accrual method. Insurance is an excellent example of a prepaid expense.

Insurance premiums are usually billed and due a year in advance. Some policies are now being written for periods of six months, but the same principle of payment due in advance applies. Using the cash method, you record the full payment when the bill is paid. Because of this, that month will show high expenses for insurance and the following months will show none.

Using the accrual method, you will credit Checking for the full payment. You will debit Insurance Expense for one month's share of the premium and debit Prepaid Insurance for the balance of the premium. Each month after that you will debit Insurance Expense for one month and credit Prepaid Insurance until Prepaid Insurance has a zero balance.

The reasoning behind this process is that each month shows the actual expense and the remainder is carried as an asset. Should you cancel the policy, the Meeting would be due the amount of the unused premium, and so it is correct to count the unused portion of the premium as an asset.

## DEPRECIATION

There are some assets whose value erodes over time. For instance, if the Meeting purchases a vehicle, it will be worth less every year until it is retired. This is reflected on the books as **Depreciation**. Depreciation applies to purchases of assets of substantial value with a life expectancy of three years or more. Buildings, Fixtures, and Equipment may be depreciated. Land is not depreciated.

For example, at the time of purchase, the asset, Vehicles, will be debited for the full amount and Checking will be credited. There are several methods of depreciation, but the simplest one is Straight Line Depreciation. This is calculated by estimating the number of years that will be the life of the vehicle and dividing the purchase price by that number. This will be the annual amount by which the vehicle is forecast to decrease in value. Many non-profits enter depreciation annually, and this is a simple and acceptable practice. If your depreciation amounts to a very large sum of money, you might prefer to enter it monthly for a gradual and more accurate picture. Should that be the case, divide the annual depreciation amount by twelve to find the monthly Depreciation Expense. Whether you make an annual or monthly entry, you will make a debit entry to Depreciation Expense. You will need to create an asset account with a negative balance (a contra asset account), Accumulated Depreciation – Vehicles. This account will receive a credit for the amount of the Depreciation Expense. At the end of the expected life of the vehicle, the original debit to Vehicles and the Accumulated Depreciation credits will be equal. The book value of the vehicle will be zero.

The subject of depreciation for buildings is one for which your Meeting will need a decision. If the Meeting has owned property for many years, if it is not encumbered by any debt, and if it has never in the past been depreciated, the Meeting is not required to begin now. Many Meetings will fit in this category and will still be following generally accepted accounting principles (GAAP). However, the Meeting will still need to evaluate its property for insurance purposes.

If you are using the pure cash method, you cannot depreciate long-lived assets. If you are using a modified cash or accrual method, depreciation is not mandatory. The advantage of depreciation is that it represents the most accurate picture of the value of assets. Being able to show the initial value and its progressing erosion is the main reason for adopting a modified cash basis for accounting. It reminds the Meeting that additional investment will be needed to maintain the usefulness of the asset. For simplicity the depreciation expense would be applied yearly instead of monthly. This is the usual way it is done under modified cash accounting.

## REPORTS

So far, the discussion has revolved around collecting and organizing information. The problem is that, however faithful you have been to these instructions, the information is probably in a form that would be difficult for others to decipher easily. Since the purpose of accounting is to provide useful information to decision makers, you will need to create reports. The reports described here are standard accounting reports and will help make the financial affairs of the Meeting clear to the members.

Because the accounting situation is constantly changing (income comes in; expenses are paid; assets are acquired; liabilities are undertaken), reports always refer to a specific date or period of time.

When reports are prepared, the importance of having carefully named categories in the Chart of Accounts becomes obvious. Descriptive titles make it plain to others exactly how funds have flowed and how assets have increased or decreased.

The two most important reports are the Income Statement (Statement of Financial Activities) and the Balance Sheet (Statement of Financial Position). Detailed examples of these will be discussed below.

You will report information to the Monthly Meeting, the IRS, and your state government as required. You will also need to supply information to those examining the Meeting's financial records.

### INCOME STATEMENT (STATEMENT OF FINANCIAL ACTIVITIES)

The term "Income Statement" continues to be used for those using the cash or modified cash basis. If the accrual basis is used, the preferred term is "Statement of Financial Activities."

The Income Statement is one that you will prepare monthly, although it can also be configured to cover transactions for longer periods. It will show the financial activity for the period, listing all inflows and outflows, summarized by category.

If you are using computer software, follow the guidelines to create this report. With a manual system this report is easy to prepare because you have column totals for each category.

*Sample Monthly Meeting Income Statement*  
*August 1–August 31, 2008*

Income	Actual	Budget
<b>Inflows / Unrestricted</b>		
Contributions	\$ 5,000.00	\$ 7,500.00
Dividend Income	234.96	350.00
Interest Income	450.00	450.00
Rental Income	1,200.00	1,200.00
Fund Raisers	0.00	0.00
<b>Total Unrestricted</b>	<u>\$ 6,884.96</u>	<u>\$ 9,500.00</u>
<b>Restricted</b>		
Lee Fund	\$ 0.00	\$ 0.00
Dividends	798.43	600.00
Interest	943.28	700.00
<b>Total Restricted</b>	<u>\$ 1,741.21</u>	<u>\$ 1,300.00</u>
<b>Total Inflows</b>	<b>\$ 8,626.17</b>	<b>\$ 10,800.00</b>
<b>Outflows</b>		
Bank Charges	\$ 3.17	\$ 4.00
Hospitality	31.26	30.00
First Day School	150.00	100.00
Insurance	545.00	545.00
Payroll	3,000.00	3,100.00
Repairs & Maintenance	125.00	250.00
Telephone	47.63	50.00
Utilities	379.52	350.00
<b>Total Outflows</b>	<u>\$ 4,291.58</u>	<u>\$ 4,429.00</u>
<b>Net Increase (Decrease)</b>	<u><u>\$ 4,334.59</u></u>	<u><u>\$ 6,371.00</u></u>

The above statement shows that the income was short of the anticipated amount in the budget. Most of the shortfall occurred in Contributions. Perhaps the explanation is that in August many members are out of town on vacation, so the shortfall will be made up in the coming months. Perhaps when the budget was made, it was calculated on the basis of a very generous member continuing her usual contribution. However, since that time, she is no longer affiliated with the Meeting. In that case, new ways to make up the difference need to be developed.

Since there was no fund raising activity scheduled for this month, that shortfall is self-explanatory. In the restricted fund the dividend was greater than anticipated. Also the interest rate was higher.

Because expenses were lower than expected, there was a net increase in cash, even when the restricted funds are excluded.

First Day School was over budget. Possible reasons include buying supplies for First Day School startup in September. Make sure the clerk of the committee is aware of the overage.

Payroll considerations include: Was there overtime? Did someone take unpaid leave? Does the Meeting need a new hire?

You can begin to see how the Income Statement pulls together the raw data that you have collected and brings to light items that need to be called to the attention of various interests within the Meeting. You need to prepare this statement monthly so that problems can be addressed before they become acute. When a windfall occurs, the Meeting needs to know about it. Plans may need to be made to designate these funds for a project that has been delayed.

There are many ways to configure the Income Statement by using additional columns. It is useful to add a column for the budget numbers so that the actual results can be compared to the budget.

By adding a third column you could compare the results with those of the previous year. A fourth column could represent the percentage of the budget that had been realized. The fifth column could show the total budget for the year in order to contrast it with the actual results for the period. It is useful to add a column for the budget numbers so that the actual results can be compared to the budget.

In the case of the monthly statement the budget amounts could be divided by twelve to indicate an apportionment for the month. Really it is the imagination of the Treasurer in an effort to make the finances clear to the Meeting that makes the job so interesting. Visual aids such as pie charts are very helpful in translating raw data into easily grasped material. Accounting software makes it easy to prepare visual aids. It is well worth the time to learn the steps to create them.

## **BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)**

As with the Income Statement, there are different terms for the cash and modified cash basis and the accrual basis. "Balance Sheet" is used for the cash or modified cash basis; "Statement of Financial Position" is used for the accrual basis.

This report shows most clearly the difference between cash, modified cash, and accrual accounting. It will be prepared annually at a minimum, but is best prepared every time the Income Statement is prepared. It is called a Balance Sheet because it illustrates the equation:  $\text{Assets} = \text{Liabilities} + \text{Net Assets}$ . The Balance Sheet is prepared as a report on a specific date (e.g., June 30, 2007) and provides a snapshot of the Meeting's financial situation as of that exact date. It complements the Income Statement (Statement of Financial Activities) because it includes information on all the assets and liabilities. It is an indicator of the ability to borrow (or lend) money, and it helps to illustrate longer term trends. Everyone concerned with the solvency of the Meeting and its ability to meet its obligations needs to have access to the Balance Sheet.

*Sample Monthly Meeting Balance Sheet  
June 30, 2008 and 2007*

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash	\$23,000	\$ 15,000
Prepaid Expenses	840	654
Accounts Receivable	250	700
Short Term Investments	9,000	7,000
Land, Buildings	650,000	650,000
Equipment	75,000	73,250
Long Term investments	50,000	45,000
<b>Total Assets</b>	<b>\$808,090</b>	<b>\$791,604</b>
<b>Liabilities</b>		
Accounts Payable	\$ 451	\$ 2,100
Short Term Debt		1,500
Long Term Debt		
<b>Total Liabilities</b>	<b>\$ 451</b>	<b>\$ 3,600</b>
<b>Net Assets</b>		
Unrestricted	\$747,639	\$743,004
Temporarily Restricted	10,000	
Permanently Restricted	50,000	45,000
<b>Total Net Assets</b>	<b>\$807,639</b>	<b>\$788,004</b>
<b>Total Liabilities and Net Assets</b>	<b>\$808,090</b>	<b>\$791,604</b>

It is of great value to the Meeting to compare the results on the Balance Sheet from year to year. Over the last year the Meeting has increased its Total Assets by \$16,486. It is noteworthy that the Net Assets increased by \$19,635 and that this was partly caused by the reduction in liabilities. Donations of \$10,000 were received for future repairs. Both Accounts Receivable and Accounts Payable were reduced. Short term debt was paid. There is no long term debt. Cash increased by \$8,000. The Meeting is definitely solvent. The Treasurer should be prepared for questions about the permanently restricted funds. What are they for? Is their income being properly spent?

#### **REPORTS TO MEETING FOR BUSINESS**

Regardless of your reporting schedule, you really must balance your books monthly when you reconcile the bank statement. Failure to do this can lead to much grief hunting for errors. You should prepare the Income Statement and Balance Sheet monthly to insure that the books are in balance and up-to-date information is available. The report to Meeting for Business will be presented either monthly or quarterly, according to the procedures of your Meeting. It is usually best to present a summary, highlighting three or four of the most crucial figures or trends, and

have the report in its entirety for inclusion in the Minutes. You may wish to add additional columns. If you have presented the budget broken down into a monthly amount, it might be useful to add a column that shows the entire annual budget. When reporting in Meeting that there were so many dollars of inflows and so many dollars of outflows, people's minds tend not to absorb the meaning of this. If you add that this represents xx percent of the budget, you will find that it is easier to visualize and understand.

The Balance Sheet shows the balances in the unrestricted cash accounts and shows how they have changed since the start of the fiscal year your duty is to present clear, accurate, and timely information to the Meeting enabling it to make sound financial decisions and to spot potential problems early. You need to be prepared to answer any questions and explain any anomalies. You will find that the Treasurer serves a role as educator. Sometimes it may be useful to explain results and compare with previous periods by using charts or graphs. Another way to briefly explain the cash position statement would be:

**Current Assets**

Cash in Bank	\$10,000	
Investments	\$50,000	
Total Current Assets		<u>\$60,000</u>

**Restricted Funds**

Africa Project	\$11,000
Scholarship Fund	\$29,000

**Liabilities**

Roof repair bill payable	<u>\$ 5,000</u>
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Total Restricted Funds Plus Liabilities	\$45,000
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<b>Unrestricted Funds Available</b>	<u>\$15,000</u>
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Total Liabilities and Net Assets	<u>\$60,000</u>
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In the example above, at first glance, it appears that the Meeting has \$60,000 available. On closer examination, it is obvious that \$15,000 is the true amount available and increased contributions may be called for at this time.

**REPORTS TO IRS AND STATE GOVERNMENTS**

The IRS and state agencies are not tolerant of anything that changes or disregards their rules. You must follow their time schedules and forms. If you make an honest error and discover it after you submit your forms, you will be allowed to correct it. Here, again, time is of the essence. Follow instructions for amended reports to the letter. Note that the IRS has designed **Form 990** (Return of Organizations Exempt from Taxes) for non-profit organizations to report their financial activities, but religious organizations are not required to file it.



## PREPARING FOR FINANCIAL EXAMINATIONS

### Why Have Independent Examinations?

The records compiled by the Treasurer need to be verified. This is for the protection of all concerned. How they should be examined depends on their complexity, on who is relying on them and on what the consequences would be if there were serious mistakes.

### Different Types of Examinations and When Each Is Appropriate

Non-professional examinations. When the accounts involve just cash transactions in a couple of bank accounts, anyone who understands book-keeping and bank reconciliations and has not been involved in maintaining the accounts for at least a year can examine them. They will need to verify that the book balances match the bank balances and that income has been accurately accounted for and outgo properly spent. If there is payroll, the examiner must verify that all the records and tax returns are available and in order.

Professional examinations. When the accounts involve property, investments, or restricted funds it is best to have a professional examine them every few years. An experienced professional book-keeper or a licensed public accountant can check uncomplicated situations, perhaps alternating with a volunteer. If there are complicated situations, mistakes to be straightened out, a tangled Chart of Accounts, or a Treasurer with more than a few questions, the organization probably needs a Certified Public Accountant (CPA). If the organization is applying for major grants or borrowing money, the grantor or the lender might require a professional examination by a CPA.

### Levels of Services

CPAs provide several levels of services:

- **Write ups.** They will take your checkbook and bank statements and summarize the information in proper accounting form.
- **Compilations.** They will take information that they or the Treasurer have summarized and put it in standard report format. This is a good level of service for an organization to start at. It makes sure that the Chart of Accounts is summarizing the right information in the right categories and that all the relevant information is probably being presented in the reports. It shows the Treasurer what needs to be done to produce standard reports. A compilation explicitly provides no assurance that the CPA has checked the accuracy of any information that has been provided to him or her. A compilation could save the organization considerable expense if a fresh start is wanted. Untangling past messes can be time consuming.
- **Reviews.** These are the next higher level of service. The CPA does everything required for a compilation and in addition does a limited amount of checking of the accuracy and completeness of the information being presented. This is a good middle level of service and will often be accepted by an outside lender or grant maker in lieu of the much more expensive audit level.

- **Audits.** These are the highest and most expensive level of service a CPA provides. They are expensive because the auditor is taking legal responsibility for the accuracy and completeness of the financial statements provided. Anyone who has made financial decisions relying on those statements can take the CPA to court and sue for damages. A CPA performing an audit will check all the accounts and sample transactions in them to see that they actually took place and are accurately recorded. Audits involve a lot of additional work and risk for the CPA. Skyrocketing insurance premiums for those who do audits mean that many perfectly competent smaller CPA firms now refuse to do them,

## GETTING READY FOR AN EXAMINER

What you need to have available:

Most basic exam—bank accounts only, no permanently restricted funds:

- Bank statements for the period being examined.
- Bank reconciliations for those statements.
- The budget that was approved for that period and any Meeting minute reflecting changes to the budget.
- A summary of income and expenses for the period.
- A complete statement of the organization's assets and liabilities as of the beginning and end of the period (comparative balance sheet).

More complicated – investment accounts and/or permanently restricted funds, all of the above and:

- Copies of the brokerage investment statements for the period.
- Separate summaries of the transactions in each of the restricted funds.

Still more complicated—property and payroll, all of the above and:

- Copies of all payroll tax returns

Most complicated—debt and business income, all of the above and:

- Summary of all non-current liabilities with the name of lender, interest rates, and payment terms
- Separate statement of business income and expenses; separate Balance Sheet if funds are kept in separate account(s) from the Meeting's operating funds.
- Copies of all business tax returns, or written justification why the Meeting doesn't need to file return(s).

A professional reviewer or auditor will also want to see:

- A list of officers of the Meeting and a description of their duties.
- A list of those who have any responsibility for handling the Meeting's money and a description of their responsibilities.
- Proof of the Meeting's tax exempt status. A Monthly Meeting may be part of a group exemption held by the Yearly Meeting.
- The Meeting's certificate of incorporation, if it is incorporated, and the corporate by-laws.
- The Meeting's insurance policies.
- Deeds to the Meeting's real estate and lease documents.
- The legal documentation establishing each restricted fund and stating its purpose – will, deed of gift, Meeting minute, etc.

## EXTERNAL REQUIREMENTS

In addition to matters that apply to activities within the Meeting, there are duties imposed from outside agencies such as payroll. Payroll involves various government agencies. Income from external sources is accounted for based on government regulations. Insurance involves dealing with external entities both for coverage and when damages and liabilities arise.

### TAX EXEMPT STATUS

Charitable organizations, including religious groups, can qualify as tax exempt organizations under IRS section 501(c). Each organization must obtain a letter from the IRS stating that it has qualified for tax exempt status. As mentioned earlier, your Meeting may have qualified individually. Or, if your Yearly Meeting or other parent organization has received a group determination from the IRS for tax exempt status, your Meeting will be named in the group determination. If there is a local determination, you should have a copy on file. If there is no local determination, contact your Yearly Meeting to be sure that your Meeting is covered as a tax exempt organization.

Tax exempt organizations, non-tax exempt charitable trusts, and political organizations are required to file Form 990 yearly with the IRS. The IRS has exempted “a church, an interchurch organization of local units of a church, a convention or association of churches, an integrated auxiliary of a church (such as a men’s or women’s organization, religious school, mission society, or youth group).” This is mentioned here to assure you that Form 990 does not apply to the work of the Treasurer as Meetings are exempt from filing unless they have unrelated business income. IRS Publication 1828, Tax Guide for Churches and Religious Organizations, contains much useful information for treasurers as does the IRS web site for tax exempt organizations, [www.irs.gov/eo](http://www.irs.gov/eo).

### PAYROLL

**Employee Definition.** You must withhold taxes from the pay of employees. It is therefore necessary to be clear as to who must be considered an employee. An employee can work full time or part time. The IRS uses as a guideline “the right to control the details of how the services are performed.” The IRS relies on common law principles to determine if a person is an employee. These principles include:

- The person works on the premises on a definite schedule for hourly pay or salary.
- The employer provides the tools and equipment to do the job.
- The employer has the right to hire and terminate the person.
- The person receives instructions or training as to how to perform the required job.

Confusion may arise as to whether a person is an employee or an independent contractor. The guiding rule of the IRS for an independent contractor is that the “organization for whom the services are performed has the right to control or direct only the result of the work, not the means and methods of accomplishing the result.” An independent contractor offers services to the general public, brings his/her own tools to the job, and works only to complete a specific job (contract).

Please be aware that you do not have a choice about classifying someone as a contractor if the person qualifies as an employee. Sometimes an individual will ask to be classed as a contractor. Request is not the issue; it is a matter of fitting the IRS definition. If there is any doubt, class the person as an employee. The IRS is strict about this and will levy serious penalties for infractions. See [www.irs.gov](http://www.irs.gov), Publication 15, Employer's Tax Guide and Publication 15A, Employer's Supplemental Tax Guide for a more thorough discussion of this issue as well as other useful information.

**New Hires.** You should maintain a file for each employee in a secure place. Before a person begins work he/she must fill out IRS Form W-4 and the appropriate forms for state and local withholding of taxes. New hires are required to show proof of Employment Eligibility Verification for Form I-9. The employer and the employee each complete and sign a section of the form. New hires must show a photo ID and proof that they have legal status to work in the U.S., using a list of qualifying documents provided with the Form I-9 instructions.

Copies of the I-9 Form can be found at [www.uscis.gov](http://www.uscis.gov). The United States Citizenship and Immigration Service (USCIS) is a section under the Department of Homeland Security (DHS). Treasurers should take this form seriously. Even though the new hire may be someone you have known from birth and you are sure that he/she is a U.S. citizen, the form should be used. There are criminal and civil penalties for not complying. DHS has stated that it is recommitted to enforcing penalties for hiring employees without proper documentation for employment eligibility. Photocopy the ID that the person presents and keep it in the employee's file. The I-9 Form is not kept in the employee file. Maintain a separate file for all I-9 forms.

You should be aware that not all Quaker organizations are comfortable with the use of the I-9 Form because it is discriminatory as to who is eligible for employment. The Treasurer should be guided by the conscience of the Meeting on this subject as reflected in the minutes.

Provide an application for each employee. You can buy preprinted applications in any office supply store. If your Meeting has written rules or procedures, have the new hire sign that he or she has received a copy. Keep these in the employee file.

The Fair Labor Standards Act (FLSA) covers rules on minimum wage, overtime pay, equal pay, and child labor. FLSA specifically exempts clergy, persons in religious orders, and others who serve pursuant to their religious obligations in institutions operated by their Church or Meeting. It also exempts volunteers serving without pay in nonprofit organizations, because they are not considered employees. FLSA does apply to ancillary businesses such as bookstores, day care centers, and schools operated by religious organizations.

Because there is an exclusion in the law for "nonprofit, religious, and eleemosynary activities" of religious organizations, some employees, whose duties are limited to the religious activities of the Meeting, could be considered not covered by FLSA. Other employees, such as a custodian, whose duties are not dependent on carrying out the religious activities and purposes of the Meeting, are covered by FLSA. When in doubt, it is better to apply the FLSA standards.

As of July 24, 2007 the federal minimum wage was raised from \$5.15/hour to \$5.85. On July 24, 2008 it became \$6.55 and on July 24, 2009 it will go to \$7.25. Many states and municipalities have higher minimums or "living wage" laws. Check with your local authority for the minimum

wage in your state or city. Overtime pay is at the rate of regular pay plus half that amount for every hour over forty worked in one week. Because religious organizations are exempt from FLSA, overtime pay is not required. If you have hourly employees, you need a time clock or some reliable way of tracking the time.

The Age Discrimination in Employment Act (ADEA) prohibits discrimination in hiring practices based on age for applicants age forty or over. It applies to organizations with 20 or more employees engaging in commerce. Although Friends Meetings with 20 or more employees would still be exempt, good stewardship should indicate following the spirit of the law.

The Americans with Disabilities Act (ADA) applies to organizations with 15 or more employees who work at least 20 weeks in the year. The disability cannot be a consideration in the hiring decision if it does not prevent the job candidate from completing the duties of the job, and reasonable accommodations need to be made for the disability. Religious organizations have an exception. If you have two equal applicants, one a disabled non-Friend, the other a Friend, you may give preference to the Friend. Religious organizations are also exempt from the access provisions of the ADA; however, it is always within the judgment of the Meeting to follow this law.

If the Meeting has employees, be sure that the Meeting has Workers Compensation Insurance that covers all employees. Many states require this insurance, but required or not, it is necessary. Compensation for serious injuries suffered on the job can amount to huge sums of money. You will need to know the effective dates of the policy, the policy number, and how to report injuries. It is important that any injury be reported promptly. See the **Forms** section for how to collect the necessary information to report injuries.

**Benefits.** Any benefits offered are entirely at the discretion of the Meeting. Availability of health insurance is often a weighty consideration in a person's decision to accept a job.

Friends Mutual Health Group (FMHG) is a self-insurance model in which participating organizations are both insurance plan owners and customers. Its goal is to provide access to effective and more affordable health care, while allowing the Society of Friends and its related organizations to pool resources and collaborate, to suffuse our organizations with Quaker values at a level where they impact people's lives directly, and to address economic issues in the context of these values. The commitment of FMHG is to provide health care in a way that is consistent with both good business practices and Quaker principles and concerns.

Participation in FMHG is open to all Friends organizations in the United States. To be eligible, an organization should be either a recognized Yearly Meeting, Quarterly Meeting, Monthly Meeting, or church of the Religious Society of Friends in the U.S.A.; a Quaker organization with a governing body on which at least 51% of the members are members as above; or a member of a recognized regional or national Friends association (e.g., Friends Services for the Aging, Friends Council on Education, Friends Association for Higher Education). Since the plan is organized as a church plan, all Friends organizations may participate under that umbrella unless they have declared themselves ERISA (Employee Retirement Income Security Act) compliant. The FMHG Board of Directors must approve an organization that asks to participate. The Board may consider the application of an organization that claims to be Quaker but that does not fit in one of the three categories listed above. All decisions by the Board are final.

FMHG is incorporated as a membership association in the Commonwealth of Pennsylvania. Each Participating Employer Organization (PEO) is a member of the association and each is required to make a subvention payment to FMHG. These funds establish a reserve that provides FMHG with financial flexibility and stability to ensure that adequate funds are available to pay claims and other Plan expenses. The Cooperative Agreement that each PEO must sign specifies the method of determining the subvention payment.

If your meeting is interested in participating in Friends Mutual Health Group or in learning more please contact FMHG. As of June, 2008, the contact is: Neil Holzman, Executive Director at Friends Services for the Aging, at [holzman@fsainfo.org](mailto:holzman@fsainfo.org) or 215-619-7949.

Tax-sheltered Annuities (TSA) are retirement plans offered by certain tax exempt organizations. Advantages to employees are tax deferred contributions, tax deferred earnings on retirement money, and portability when changing employers or on retirement. The IRS rules governing these plans are complex and exact. Many plans are required to file IRS Form 5500 yearly. If your Meeting has such a plan, or contemplates initiating a plan in the future, you need to seek the advice of a benefits consultant to guide you through the procedures.

**Pay Period.** Ideally for you, the pay period would be monthly. You must recognize, however, that many employees cannot budget for pay that is that infrequent. In such a case you can pay semimonthly (twice a month) or biweekly (every other week). Some states have laws requiring that paychecks be issued at least twice a month. Check with your state to make sure that you are in compliance with the law. Weekly pay is a burden on a Treasurer, and if you are using a payroll service it doubles the cost.

**Payroll Taxes.** At present (January 2008) the withholding for Social Security tax is 6.2% of gross wages. Medicare withholding is 1.45% of gross wages. Therefore, the total Federal Insurance Contributions Act (FICA ) share of deductions from employee pay is 7.65%. The employer matches this amount with an additional 7.65%. Federal Income Tax can be calculated from tables supplied by the IRS in Publication 15, Employer's Tax Guide (see [www.irs.gov](http://www.irs.gov)). Each employee's tax is based on gross pay, frequency of pay, married or single status, and number of exemptions requested on IRS Form W-4. The amount shown in the table is deducted from the employee's gross pay.

State and local taxes (if any) are calculated in the same way from tables supplied by these entities.

You may also be liable for state unemployment insurance taxes. Check with your local authorities to determine the procedure. Generally, religious organizations are exempt.

You must deposit withholding taxes on a schedule determined by the value of your annual payroll. The IRS and your state tax authority will inform you as to the schedule. IRS Form 941 must be filed quarterly. It is important to make the deposits and file 941 in a timely way because the penalties and interest are substantial. Small employers may be able to file Form 944 annually instead; check with the IRS to see whether your Meeting qualifies.

Gross pay, all deductions, and net pay must be listed on the pay stub given to the employee.

In January of each year you need to prepare tax forms based on the preceding year's payroll. **Form W-2** summarizes the pay for each employee. You will need to send the summary **Form W-3** along with the W-2s to the government as indicated in the instructions. Any office supply store can provide sets of these forms .

Depending on your locality you may be required to report to state and local jurisdictions. Please check with state and local authorities for clarification and instructions.

**Non-Cash Compensation.** Some employees may be provided housing as well as salary or wages. The fair market value of the housing, if it were on the local rental market, is considered a part of total income. Similarly, if regular meals are provided for an employee, the value of meals would be non-cash income, and should be reported to the IRS. However, non-cash compensation that is a part of the job requirement is not considered income. An example would be a caretaker who was required to live in on-site housing. As in many situations, specific state regulations may also apply. Please check with your authorities.

**Earned Income Credit.** The Earned Income Credit is a refundable tax credit for working low-income individuals and families. It is based on gross income, number of dependent children, and marriage status. It is a very valuable benefit for those who qualify. Some employees with at least one child living at home may qualify to receive Earned Income Tax Credits in advance in their paychecks. If an employee qualifies, he/she must fill out **IRS Form W-5**.

**Garnishments.** There are occasions when the courts or the IRS will issue orders for mandatory payments (garnishments) to be deducted from an employee's pay for a definite period of time. Your responsibility will be to see that the deductions are made from every paycheck, and then to send the money to the recipient named in the documents. If the garnishment is related to tax resistance, please contact an organization such as Philadelphia Yearly Meeting, which has experience in this area.

**Sexual Harassment.** Sexual harassment in the workplace should not be tolerated under any circumstances. The Meeting should have a policy on sexual harassment. Every employee should be given a copy of the policy, and a copy, signed by the employee, should be kept in the employee's file.

**Separation.** When an employee leaves, for whatever reason, you should put something in the file that, at minimum, states the name of the employee, the hire date, the last day of work, the pay rate, and the reason for leaving. Unless it is a case of job abandonment, the employee should look this over and sign in agreement.

There are numerous reasons why you, or your successor, may be called upon for this information in the future. It is best to get it at the time it occurs.

## **PAYROLL SERVICE**

There are great advantages in engaging a payroll service to handle your payroll. The job of Treasurer is far less burdensome when a payroll service is engaged.

You give the service the necessary information on each employee, update the basic information when changes occur, and report hours for each payroll.

The service prepares the checks, deposits the taxes, and prepares the state and federal tax reports. It issues the W-2s summarizing the employee earnings for the year. Most important, it assume liability for any errors it makes.

A disadvantage is that for one or two employees it is probably not cost effective to engage a service. Nevertheless, it is worth your while to check with a local service. Make sure that any payroll service you select will give small organizations the same professional care and attention it gives to large regular clients. While the use of a payroll service may not be cost effective, Meetings frequently use such a service. It may be a determining factor in a person's decision to become a Treasurer.

## **WAR RESISTER TAX**

It is possible that you may have employees whose consciences will not permit them to pay Federal income taxes that support war efforts. As an employer you are required to withhold taxes from paychecks as requested by the employee on **Form W-4**. If the Form W-4 has been incorrectly filled out to avoid taxes, the employee could be subject to fraud charges. The safest legal way to avoid war taxes is to earn less than the taxable income; to be self employed; or to have employment that does not require withholding (clergy, domestic servants, day laborers, and agricultural workers). If your Meeting has employees who wish to resist taxes, you need to have a clear decision as to the Meeting's responsibility not to withhold taxes for these persons. A Meeting should have a separate specific minute that can be quoted to the IRS, if necessary. The Meeting is responsible for withholding taxes only on the income it pays to the employee. It has no responsibility for withholding taxes on any other income the employee receives, despite efforts by the IRS to collect such taxes. Counseling can be sought through the Yearly Meeting, Friends United Meeting, or Friends General Conference. These organizations have helpful policies on this subject.

Please see **Forms** section for advice on War Resister Tax withholding.

Recently the IRS Code was revised to impose penalties for tax refusal for what it considers "frivolous" reasons. "Frivolous" has been defined to include religious or moral beliefs, and a penalty of \$5,000 could be imposed. It is true that the IRS has to offer the person the opportunity to withdraw the return or submission before the penalty can be imposed. This is an added consideration for those who feel moved to resist taxes.



## UNRELATED BUSINESS ACTIVITY

Tax exempt organizations need to be concerned about unrelated business income. When 50% or more of the income is derived from unrelated business activity, there is a strong likelihood that the IRS may revoke the tax exempt status. It is, therefore, necessary to understand the rules and exemptions for unrelated business. An unrelated business is taxable under IRS rules if it:

- is not substantially related to the exempt purpose;
- is a trade or business;
- is regularly carried on.

Examples: (fundraising event, rental income)

If your Meeting operates a restaurant every Wednesday to raise funds to support the Meeting, the income from the restaurant would be taxable. It is taxable because it is a business that is conducted on a regular basis.

If your Meeting conducts a monthly bazaar at which it sells donated items, the proceeds would not be taxable. It is merely converting property (donations) into cash.

If your Meeting operates a thrift shop staffed almost exclusively by volunteers, the proceeds would not be taxable. Unrelated business or trade does not apply to operations where unpaid volunteers do most of the work.

Generally, rental income is not taxable. However, if your Meeting decides to rent property that has a mortgage, or otherwise incurs debt to bring the property up to the required standards, the rental income would be taxable. Debt-financed rental income is taxable as unrelated business income.

If your Meeting routinely sells items such as stationery, T-shirts, or other inexpensive items, the income would not be taxable as long as total sales are under \$1,000.

Sales taxes are imposed and collected by individual states. The above information applies to Federal income taxes. You should contact your individual state to determine the rules on sales tax.

## MILEAGE REIMBURSEMENT

There will be times when you may be asked to reimburse someone for mileage expenses.

Employees may be paid for driving done as part of their employment by a Meeting (not for travel from home to job). Some states require that an employee using a personal car on the job be paid mileage if the he or she chooses to claim it. Employees must have a valid driver's license, insurance as required by the particular state, and may not charge operating costs (gas, repairs, insurance) to the employer. As of January 2008 the rate established by the IRS for business travel is 50.5 cents per mile.

Volunteers may claim mileage reimbursement while on Meeting business if the Meeting chooses to have a policy permitting such claims. Volunteers, also, must have a valid driver's license, have insurance as required by the particular state, and may not charge operating costs to the Meeting. Volunteers claiming a tax deduction are reimbursed at a much lower rate than employees. As of

January 2008 the rate established by the IRS for volunteer mileage for charities is 14 cents per mile. Volunteers on Meeting business may record their mileage personally and report a total, at the IRS charitable rate, as a part of their personal income tax reporting of charitable contributions. Although the Meeting's permission is not required for such reporting, the volunteer could ask a Meeting official to verify that the activity took place as reported. Volunteers should consult their personal tax advisers on this matter.

## INSURANCE REQUIREMENTS

When insurance coverage (fire, wind, flood, liability, etc.) is being considered, check to see what coverage is available through the Yearly Meeting. Bring this information to the attention of the Finance Committee or the Business Meeting according to the procedures of your Meeting.

Every Meeting should carry liability insurance to cover its activities and to cover property, if the Meeting owns physical assets.

It is important that you check to be sure that insurance coverage has been reviewed and is paid.

The Finance Committee will probably make decisions about coverage, but the Treasurer should understand the terms and know the location of the policies and whether the coverage is considered "adequate" or is full replacement coverage. Full replacement coverage will pay to replace the damage at the current market value. Adequate coverage may pay at 50% of market value; stated another way, it will pay for 50% of the damage. Complete insurance policies are issued the first year of coverage. When the policies are renewed, the company issues a Certificate of Insurance. Therefore it is important to retain the original policy so that you can refer to the exact terms of coverage and limitation.

If an organization rents Meeting facilities for a one-time special event, the organization must provide you with written proof of liability coverage. The Meeting does not need to be responsible for another organization's liability. There may be times when the Meeting sponsors another organization, as a community service, to use the premises. Small groups, such as an interfaith peace group, may not carry insurance. This kind of use is part of the Meeting's mission and outreach. Under these conditions the Meeting's insurance could cover the liability. It would, however, be necessary to verify this coverage with the Meeting's carrier.

Well-designed internal controls will usually meet the requirements for crime coverage. Consultation should be undertaken with the Meeting's insurance carrier to determine what crime coverage is built into existing policies. A fidelity bond, insuring an organization for dishonesty by the "bonded" individual who handles money, is generally obtained by organizations dealing with large amounts of cash. Because Quaker Meetings generally do not "pass the plate" for weekly contributions, the need for a fidelity bond is less pressing, but a Meeting with major assets and complex business affairs may wish to consider it. Such bonds are expensive. Check to see if crime coverage is sufficient.

Insurance coverage should be reviewed regularly for adequacy, remembering that if only 50% of the current value of an asset is insured, insurance payments will cover only 50% of a loss.

Every employee should be covered by Workers Compensation Insurance. Please review the **Payroll** section about Workers Compensation, and the **Forms** section for how to provide information for an injury claim.

## ITEMS THAT THE TREASURER NEEDS TO KNOW

### Records:

- Does your Meeting have a safe deposit box?
- Where is it located?
- Who has access?
- What records are kept there?
- Where are old records stored?
- Is the storage area a safe and fireproof place?
- How long is it necessary to keep old records?  
See **Record Retention** section for guidelines on this subject

You may or may not be directly involved with a safe deposit box (if there is one), but you should be aware of where records are kept and how they can be accessed when needed.

### Insurance:

- What is the Meeting's insurance coverage?
- When is the renewal date?
- Where are the policies?
- How recently has the coverage been reviewed?
- See **Forms** section for information needed to report injuries.
- If the Meeting has leases, where are the actual leases kept?

Again, you may not be directly involved, but if an emergency arises, it may be very helpful if you have the answers.

### Incorporation:

- Is your Meeting incorporated?
- If so, what is the date of incorporation?
- If not, should it be?
- Is the Meeting complying with state laws to retain its status as a corporation?
- If the meeting is incorporated, are the by-laws up-to-date?

It simplifies many dealings with governments and outside organizations if you are incorporated.

### Professional Consultants:

- Does your Meeting deal with an accounting firm, legal counsel, or brokerage firm?
- If so, who are the contacts?

### Taxes:

- Does your Meeting have a federal tax number (also referred to as EIN or employer ID number)? If so, what is the number?
- Does your Meeting have a state tax number? If so, what is the number?
- Does the Meeting have a sales tax account number? If so, what is the number ?
- Is the Meeting required to have any licenses? If so, where are they posted?
- Does the Meeting have a 501(c) letter from the IRS? If not, is it covered by the Yearly Meeting?

**References to assist the Treasurer:**

- IRS publications: Publication 15, Employer's Tax Guide; Publication 15-A, Employer's Supplemental Tax Guide (independent contractor information); Publication 78, List of Organizations Qualified to Receive Tax Deductible Contributions; Publication 557, Tax Exempt Status for Your Organization; Publication 1828, Tax Guide for Churches and Religious Organizations; Form 990 Instructions (lists types of organizations exempt from filing)
- The Zondervan Church and Nonprofit Tax and Financial Guide, Dan Busby, CPA (Zondervan, Grand Rapids, MI), [www.zondervan.com](http://www.zondervan.com). Updated annually. A readable guide for the layperson.
- Church and Clergy Tax Guide, Richard H. Hammar (Christianity Today International, Carol Stream, IL), [www.churchlawtoday.com](http://www.churchlawtoday.com). Updated annually. A thorough and detailed tax guide.
- PPC's Guide to Religious Organizations, James E. Guinn (Thomson Tax & Accounting, Fort Worth, TX), [www.ppcnet.com](http://www.ppcnet.com). Updated annually. 450-page looseleaf guide aimed at providing professional accountants with "practical, comprehensive guidance on the unique tax, accounting, and operational issues of religious organizations." Also publishes PPC's 990 Deskbook, "line-by-line guidance for preparing Forms 990." These volumes are expensive, but VERY thorough .

## CHECKLIST FOR MAINTAINING THE SYSTEM

### WEEKLY

1. Deposit checks (and cash—if any)
2. Send letters acknowledging donations but if the donation is one of a series you can do this quarterly.
3. Record all receipts in journals
4. Verify that unpaid invoices have proper authorization
5. Pay bills
6. Record disbursements in journals
7. Verify actual petty cash
8. Add payroll hours (if any)
9. If using manual system be sure all columns total correctly

### MONTHLY

1. Reconcile, replenish, and record petty cash
2. Reconcile bank statement(s). Review payroll records—be sure all files are updated
3. Enter accruals for depreciation, prepaid expenses, accounts receivable, accounts payable if using accrual or modified cash system.
4. Prepare Income Statement for month. A full Balance Sheet may not be needed every month, but you should at least report on available cash balances.
5. Prepare Report to Meeting for Business if you report monthly.

### QUARTERLY

1. Verify that payroll taxes have been paid, that IRS form 941 has been filed, and that state or city forms, if applicable, are filed.
2. Prepare quarterly Income Statement and Balance Sheet
3. Prepare Report for Meeting for Business
4. Verify that all non-payroll state and IRS forms that apply have been filed.

### YEARLY

1. Prepare annual Income Statement and Balance Sheet
2. Assist Finance Committee as needed with next year's budget
3. Assemble all records and turn over to examiner
4. In January, be sure IRS Forms W-2 are prepared and distributed and IRS payroll summary form W-3 is filed. State-required payroll summary reports must also be filed in January. If you are using a payroll service, it will prepare these forms; the Treasurer needs to ensure that a timely distribution takes place by January 31.
5. By February 28, prepare IRS Form 1099 reporting any payments of \$600.00 or more to independent contractors; distribute these to contractors and file with the IRS, summarizing your distributions on IRS Form 1096. Some states may require a state filing of this information.

**F O R M S**

**ACKNOWLEDGEMENT OF DONATIONS**

Xxxxxxxxxx Monthly Meeting  
Of the Religious Society of Friends  
23274 Meetinghouse Rd.  
Quaker City, DE

March 11, 2008

Sam Smith  
3926 Friendly Lane  
Claiborne, MD 21624

Dear Sam Smith:

This letter is to acknowledge your contribution of \$150.00 to Xxxxxxxxxx Monthly Meeting of the Religious Society of Friends. We are grateful for your ongoing support of the work and programs of Xxxxxxxxxx Monthly Meeting.

Federal tax law now requires us to confirm to you that no goods or services were provided to you in return for your gift and that, therefore, the full amount of your gift is deductible for Federal Income Tax purposes. Please save this letter for your tax files.

Yours in peace and light,

Your name, Treasurer  
Xxxxxxxxxx Monthly Meeting  
Of the Religious Society of Friends  
23274 Meetinghouse Rd.  
Quaker City, DE

**Optional Wording**

In cases where goods or services have been exchanged at the time of a donation, the following changes should be made to the second paragraph:

Federal tax law now requires us to confirm to you that because you received-----goods or ----- services valued at ----- at the time of your donation of -----, the amount of your gift that is deductible for Federal Income Tax purposes is -----

**FORMS**

**ACKNOWLEDGEMENT OF NON-CASH DONATIONS**

Xxxxxxxxxx Monthly Meeting  
Of the Religious Society of Friends  
23274 Meetinghouse Rd.  
Quaker City, DE

March 11, 2008

Sam Smith  
3926 Friendly Lane  
Claiborne, MD 21624

Dear Sam Smith:

This letter is to acknowledge your contribution on March 3, 2008 of 200 shares of stock of XYZ, Incorporated, to Xxxxxxxxxx Monthly Meeting of the Religious Society of Friends. On that date the stock was valued at \$100 per share. This represents the average of the high and low price per share on that day.

Federal tax law now requires us to confirm to you that no goods or services were provided to you in return for your gift of \$20,000 and that, therefore, the full amount of your gift is deductible for Federal Income Tax purposes. You will need to include IRS Form 8283 (Non-Cash Charitable Contributions) with your 2008 Federal Tax Return. A copy of Form 8283 with part IV filled in is included with this letter. Please save this letter for your tax files.

We are most grateful for your generous support Xxxxxxxxxx Monthly Meeting.

Yours in peace and light,

Your name, Treasurer

**Optional Wording**

In cases where goods or services have been exchanged at the time of a donation, the following changes should be made to the second paragraph:

Federal tax law now requires us to confirm to you that because you received-----goods or ----- services valued at ----- at the time of your donation of -----, the amount of your gift that is deductible for Federal Income Tax purposes is -----

**F O R M S**

**WITHHOLDING WAR RESISTER TAXES**

Xxxxxxxxxx Monthly Meeting  
Of the Religious Society of Friends  
23274 Meetinghouse Rd.  
Quaker City, DE

DATE

To: District Director, IRS

From: Monthly Meeting of the Religious Society of Friends  
Address  
City state zip

Subject: 941 for \_\_\_\_ Quarter \_\_\_\_

Employer # \_\_\_\_\_ Quarter ending \_\_\_\_\_

Monthly Meeting has withheld \_\_\_\_\_ in federal income taxes for the period ending \_\_\_\_\_.

At the request of an employee who is conscientiously opposed to paying taxes for military purposes, and in accordance with policies and procedures of the Monthly Meeting, the sum of \_\_\_\_\_ included in the above total has not been deposited with the other withheld taxes.

The sum of \_\_\_\_\_ represents the taxes which the employee has conscientiously refused to pay. The Monthly Meeting has affirmed that conscientious objection to paying taxes for military purposes is an appropriate and traditional individual expression of the Friends Peace Testimony and believes it is wrong for it to act in a manner which results in the violation of an employee's conscience in such historic Friends testimonies.

The above sum has been appropriately identified in the Monthly Meeting's records and invested on a short-term basis. The amount will be paid with interest to the Internal Revenue Service on behalf of the employee as soon as there is assurance that the taxes paid will not be used for military purposes.

Very Truly Yours,

The xxxxxxxx Monthly Meeting

**ONLY THE NAME OF THE MONTHLY MEETING SHOULD APPEAR  
AS THE SIGNER. NO INDIVIDUAL'S NAME SHOULD APPEAR.**



**F O R M S**

**CHECK REQUEST FORM**

DATE	ITEM	COMMITTEE	AMOUNT
		TOTAL	
SIGNATURE OF PURCHASER		DATE	
SIGNATURE OF TREASURER		DATE PAID	
		CHECK #	

**IRS FORMS**

There are numerous references to IRS forms in this Guide. Your nearest IRS office can supply you with the most recent versions and instructions, or you can download them from [www.irs.gov](http://www.irs.gov). These include W-2, W-3, W-4, W-5, W-9, 941, 1099-MISC, 8282, and 8283. The IRS website specifically for tax exempt organizations is [www.irs.gov/eo](http://www.irs.gov/eo)

Form I-9 and instructions and advice can be found at [www.uscis.gov](http://www.uscis.gov)

## INJURY REPORT INFORMATION

Information you will need to file an injury claim with an insurance company

1. Name of your Meeting \_\_\_\_\_
2. Insurance policy number \_\_\_\_\_
3. Name of injured \_\_\_\_\_
4. Address of injured \_\_\_\_\_
5. Social Security number \_\_\_\_\_
6. Home telephone number \_\_\_\_\_
7. Date of birth \_\_\_\_\_
8. Employer \_\_\_\_\_
9. Date of hire if employed by Meeting \_\_\_\_\_
10. Date/time of injury \_\_\_\_\_
11. Place of injury \_\_\_\_\_
12. Names of witnesses \_\_\_\_\_  
\_\_\_\_\_
13. Nature of injury—describe exact body parts \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
14. Cause of injury \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
15. Was medical treatment received \_\_\_\_\_
16. Name, address, & phone number of medical facility \_\_\_\_\_  
\_\_\_\_\_
17. Diagnosis \_\_\_\_\_  
\_\_\_\_\_
18. Claim number for this incident \_\_\_\_\_

Claims should be filed by telephone as soon as you are informed of the incident.  
Prompt filing is very important in placing a claim.

## RECORD RETENTION<sup>1</sup>

<u>Document</u>	<u>Retention Period</u>
Accounts Payable records	7 years
Accounts Receivable records	7 years
Articles of Incorporation & Bylaws	Permanently
Audit Reports	Permanently
Bank Reconciliation	2 years
Bank Statements	3 years
Budgets	5 years
Cancelled checks for important payments such as taxes, purchases of property, contracts	Permanently
Capital Stock & Bond records	Permanently
Cash Books	Permanently
Chart of Accounts	Permanently
Computer backup	1 year
Computer Data Entry of data in hard files	5 years
Contracts & leases (expired)	7 years
Correspondence – general	2 years
Correspondence – legal & tax related	Permanently
Deeds, Mortgages, Bills of Sale	Permanently
Deposit slips	3 years
Depreciation schedules	Permanently
Employee personnel records (after termination)	7 years
Employee Applications	3 years
Financial Statements – year end	Permanently
General Ledgers	Permanently
Insurance Policies (expired)	7 years
Insurance records – claims, policies	Permanently
Internal audit reports	3 years
IRA & 401 K plan contributions, transfers, distributions	Permanently
Minutes	Permanently
Payroll records, summaries, tax returns	7 years
Retirement plan records	Permanently
Taxes, withholding statements	7 years
Tax returns & documents relating to income tax liability	Permanently
Trust documents and restrictions	Permanently
Trial Balances (monthly)	3 years

<sup>1</sup>Compiled from lists provided by Asher & Co., Zelenkofske, Axelrod & Co., CPAs Inc., and Fishbein & Co.

## GLOSSARY

### Abbreviations

COLA—Cost of Living Allowance  
CPA—Certified Public Accountant  
EOY—End of Year  
FY—Fiscal Year  
MTD—Month to Date  
NA—Net Assets  
TSA—Tax-sheltered Annuity  
YTD—Year to Date

<b>Accounting</b>	Organized and structured systems of recording, explaining, and reporting financial data
<b>Accounts Payable</b>	Money that is owed but has not yet been paid
<b>Accounts Receivable</b>	Money that others have agreed to pay, but has not been received
<b>Assets</b>	Items that are owned by an organization. These may be physical (land, buildings, furniture, equipment, etc.) or financial (bank accounts, stocks etc.).
<b>Audit</b>	Examination of all financial data by a Certified Public Accountant (CPA)
<b>Balance Sheet</b>	A statement of the financial position of the organization on a specific date. The concept that assets – liabilities = net worth is used. See also <u>Financial Examination</u>
<b>Bank Reconciliation</b>	Method of verifying the accuracy of the bank's and the organization's records
<b>Bookkeeping</b>	Process of keeping records of financial transactions
<b>Chart of Accounts</b>	A list of accounts that will be needed to keep appropriate records for the organization (for example, donation income, telephone expenses), grouped by assets, liabilities, income, expenses, etc., with numbers in logical sequence assigned to each account.
<b>Credit</b>	A bookkeeping entry that increases liabilities or income and decreases assets or expenses.
<b>Current Assets</b>	Cash or assets that the Meeting intends to convert to cash within 12months.

<b>Debit</b>	A bookkeeping entry that increases assets or expenses and decreases liabilities or income.
<b>Depreciation</b>	A method of recording the decreasing value of an asset as it ages over time to reflect its true present value.
<b>Designated Funds</b>	Funds set aside by the Meeting for a specific purpose from Unrestricted Funds. Residue returns to unrestricted funds when project is ended.
<b>Disbursements</b>	Payments made by an organization.
<b>Double Entry</b>	A bookkeeping system where all transactions are entered twice using debits and credits. The total debits must equal the total credits. This proves the accuracy of the entries, and the books are said to "balance."
<b>Endowment</b>	A popular but imprecise term referring to funds whose principal is not to be spent. If the result of a gift, the funds are Permanently Restricted Funds. If they have been set aside by the Meeting, they are designated funds. This is an important distinction for legal reasons.
<b>FASB</b>	Financial Accounting Standards Board, an independent group providing statements of authoritative and invaluable guidance on accounting matters.
<b>Fiduciary</b>	A person holding a position of trust over the assets of others. The term embraces a legal responsibility to manage these assets with the highest standard of care for the welfare of the beneficiary. Failure to uphold the trust taken on by a fiduciary can result in serious legal penalties.
<b>Financial Examination</b>	An examination by a disinterested outsider to verify that accounting procedures have been followed and that the reports represent a fair summary of the Meeting's financial activity for the period being examined and of its financial position during the period. An examiner may also inquire into other matters affecting the Meeting such as insurance.
<b>Fiscal Year</b>	A period of one year for recording and reporting financial activity. The Meeting may select the calendar year (Jan. 1–Dec. 31) or another period such as July 1–June 30.
<b>GAAP &amp; GAAS</b>	Generally Accepted Accounting Principles and Generally Accepted Accounting Standards adopted by the FASB to create clear, uniform rules for the reporting of accounting data.

<b>Income Statement</b>	Summary of all inflows and outflows for a specific period of time.
<b>Invoices</b>	Itemized statement of goods or services provided – usually a bill that must be paid.
<b>Liabilities</b>	Items that are obligations to others.
<b>Net Assets</b>	Sum of assets minus liabilities
<b>Payroll</b>	Payment of money to employees for services rendered. The amount is calculated by time worked multiplied by an hourly rate, or by an agreed salary.
<b>Petty Cash</b>	Small, fixed amount of cash for minor expenses to be replenished as depleted.
<b>Prepaid Expense</b>	Money paid in advance of service. Classed as an asset.
<b>Receipt</b>	Money coming to the organization to be deposited, recorded, and categorized.
<b>Restricted Funds, Permanent</b>	Funds that can never be used for any purpose other than that named by the donor; also called <u>Endowment Funds</u> .
<b>Restricted Funds, Temporary</b>	Funds donated for a specific purpose or project. Restriction expires when the project is completed.
<b>Transfer of Securities</b>	Donation of securities instead of cash.
<b>Trial Balance</b>	List of accounts demonstrating the equality of the debit and credit balances.
<b>Unrestricted Funds</b>	Funds available for use as needed.