



Michael Watson

SECRETARY OF STATE

BOOKKEEPING & OPERATING TIPS FOR CHARITIES (NOT OFFERED AS LEGAL ADVICE)

The following helpful hints are for assisting charities in staying in compliance with charity laws and rules.

Bookkeeping

1. Separation of duties: (at least two independent people)

- a. One person should write checks and a separate person should sign checks.
- b. One person should write checks and a separate person should reconcile the bank statements and review canceled checks.
- c. One person should receive money/payments and a separate person should deposit/record the deposits.
- d. Checks should never be signed by the same person the check is written to.
- e. Person making accounting entries should not be the same person signing the checks.
- f. Invoices and checks should be approved by someone other than the preparer.
- g. There should be two independent signatures on all check transactions or at least for transactions over a specified amount set by the Board.

2. Bookkeeping Process:

- a. Cash should be recorded with receipt on multiple-copy receipt book.
- b. Fundraising events should be set up for two people to accept, record, and monitor the collection. A third person should deposit the funds.
- c. Management should verify the amount deposited matches the amount collected.
- d. Eliminate the use of cash as much as possible. If cash usage is necessary, a cash reconciliation report should be kept with legible receipts notifying the purpose and evidencing the full amount or cash balance being re-deposited into the bank account.
- e. Receipts should be kept for each credit card transaction and attached to statement.
- f. Each check written should contain a memo identifying the purpose.
- g. Funds received as "restricted" may only be used for the restricted purpose intended.
- h. Separating "Restricted" Funds from the General Funds is recommended.
- i. In-kind Donations and purchased assets must be kept on a running Inventory list, updated regularly, and be accounted for on the books.
- j. The General Ledger should show a detailed description of each transaction.
- k. Payroll checks should be noted as to the period of time worked.
- l. Unless charitable purpose is to loan money, there should be no cash advances/loans.
- m. Charity funds are to be used only for charitable purpose expenses and/or expenses incurred in the raising of funds to be spent on the charitable purpose.
- n. Charitable funds may NOT be used for the following personal expenses:
 - i. Personal travel meals, unless there is documented overnight business conduct which should include receipts and purpose of business;
 - ii. Fuel for personal use;
 - iii. Repairs and maintenance of personal vehicles;

- iv. Improvement to personal property;
- v. Board members travel expenses to Board meetings, unless pre-authorized and documented in minutes or By-Laws; and
- vi. Flowers for funerals, birthday parties/gifts, or other staff/board events.

3. Other:

- a. Reimbursements for expenses should include copies of receipts and purpose.
- b. Bank account should be monitored regularly for shortage to avoid bank fees.
- c. Recommended goal of charities is to have Program Service expenses percentage of at least 65% and total of Administrative and Fundraising costs 35% or below.
- d. Proper allocation of expenditures is imperative. The annual reporting should reflect the total income and the allocation of total expenses between three categories - Management/General (Administrative Costs), Fundraising, and Program Services.*
- e. Data should be back-up in case of disaster.

**See the IRS Guidelines for Allocations of Expenses on Form 990 and 990EZ.*

Operating

1. Board Recommendations:

- a. Voting Board members should not be paid employees.
- b. Executive Directors are generally paid employees hired by the Board and should not be a voting Board member.
- c. Board should be provided monthly financials for review.
- d. Board approved policies should be documented (usually by recording in the minutes) and implemented.

2. Board Minutes should include at least the following:

- a. Charity name, date/time and location of meeting;
- b. Board members present and those not present and other attendees;
- c. The time and name of person who called meeting to order;
- d. Approval of prior board minutes;
- e. Executive report summary;
- f. Financial report and approval;
- g. New business; and
- h. Any votes taken, name of person presenting motion, and seconding motion. Record outcome of vote.

3. Employee files should be maintained and include performance evaluations.

4. Policies Recommended:

- a. Conflict of Interest Policy
- b. Whistleblower Policy
- c. Personnel Policy
- d. Travel Policy; and - mileage logs should be maintained for all travel
- e. Asset Policy (to track and dispose of assets)