IPMA-HR
INTERNATIONAL PUBLIC MANAGEMENT
ASSOCIATION for HUMAN RESOURCES

IPMA-HR Chapter &Region

Accounting Manual

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Basic Financial Statements

As Chapter/Region Treasurer you will be generally be concerned with two basic financial statements: balance sheet and income statement.

The balance sheet, or statement of financial position, is a picture of the financial status of an organization at a single date in time. The next day could show a completely different picture. The balance sheet lists the assets of the organization in their order of liquidity. The most liquid asset being cash and the lease liquid would be land and buildings. Balancing, or offsetting the assets, are the organization's liabilities and net assets (equity in a for-profit entity).

The income statement may also be referred to as a profit and loss statement (P&L) or a statement of activities. It covers a specific period of time such as a month or year. It lists the revenues of the organization and provides a total. It then lists the expenses of the organization with a total. The "bottom line" is the net of total revenues minus the total expenses.

Management of your chapter should review these two statements each month so they are familiar with the financial activities and status of the organization. These statements should also be regularly provided to the organization's Board of Directors if they are different from management.

Developing the Financial Statements

The financial statements are derived from the books of the organization. These "books" may range from an excel spreadsheet to simple accounting software in which they are more correctly called the general ledger. If your chapter has more than 10-20 transactions per month, you should investigate some simple accounting software for businesses (either desktop or online) such as QuickBooks or Xero.

A sample chart of accounts will often come with the software but you should customize it to match your organization's operations. The chart of accounts list a listing by category of the accounts in which you want to summarize your activities. The categories are always the same: assets, liabilities, net assets, revenue and expenses. Within each of these categories you will need to create accounts such as Checking Account, Accounts Payable, Dues Revenue and Postage Expense. Each transaction will consist of an increase/decrease in one of your accounts and an offsetting increase/decrease in another account.

For example, receipt of revenue is an increase in cash and some revenue account. Disbursement of cash is a decrease in cash and possibly an increase in an expense account. If you are unfamiliar with double-entry bookkeeping you should take a class to increase your understanding of basic accounting.

IRS Reporting

Each chapter is separately incorporated and needs to file its own 990-series form with the IRS**.** The specific form to be filed is determined by the size of the organization and should be carefully reviewed each year. Even very small chapters must file with the IRS to retain their exempt status. Form 990 is due annually on May 15 for the previous calendar year. Any chapter on a different fiscal year will have a different due date. Detailed instructions can be found on the IRS website www.irs.gov

Banking

Each Chapter should open at least one bank account for transacting its business. The account should be in the Chapter's legal name and use its assigned Tax Identification Number, TIN, or Employer Identification Number (EIN) as issued by the Internal Revenue Service. The chapter should not use the social security number of an individual nor should it use the TIN or IPMA-HR, the national organization.

The checking account should have several officers as signers and these should be updated with the bank each year as new officers are elected. When deciding on the signers, the Chapter should consider availability and segregation of duties (discussed below). There should always be more than one signer so that account is always available to the organization during vacations, illnesses and turnover.

The Chapter should never use a signature stamp nor should any pre-signed checks be kept on hand. All signatures should be done in person and accompanied by a review of the invoice or contract being paid.

At the end of each month the Treasurer is generally the one responsible for performing and documenting the bank reconciliation. Documenting just means the reconciliation should be done on paper (or printed out on paper) and then initialed and dated by whoever did the reconciliation.

There are forms available to provide a template for performing the bank reconciliation, often on the back of the bank statement. The objective is to identify differences between the bank's balance and the organization's account balance and then decide whether the differences are just due to timing such as outstanding checks (and require no adjustment to the books) or if there is an adjustment needed for things such as account fees or interest earned.

Internal Control

Your system of internal control consists of a series of checks and balances to either prevent or detect (in a timely manner) any material errors or fraud. No system can detect all errors or fraud; most are designed to find the large, important problems. Organizations must consider the cost/benefit ratio when designing their systems. Please also note that the system should function correctly regardless of the talents or honesty of the involved individuals.

The major theme behind most internal control is the segregation of the assets (bank account, cash, inventory, etc.) and control over those assets from the recording function (bookkeeping). For example, the person signing the checks should not also have access to the general ledger to record the checks. In many small organizations, the Treasurer performs both these functions so this preventive control would not be in place. Instead, the organization may wish to use a detective control to determine, after the fact, that an error or fraud has occurred. In this example, the organization may give a Board member online, read-only, access to the bank account to review activity every few days and compare it to a check register which agrees with the general ledger/book version of bank activity.

For control over cash receipts, an organization may have one person prepare and make the bank deposit while giving a copy of the checks to whoever is doing the bookkeeping. This could be done a bit more easily if the organization invests in a remote deposit scanner so the person making the deposit doesn't have to copy the checks. In this instance the actual checks do not go to the bank so can be used as the basis for recording the deposit in the general ledger.

Independent Contractors vs. Employees

If the Chapter pays anyone to perform personal services (not for goods) it needs to decide whether this person is an employee or an independent contractor (IC). The distinction is important in determining the type of reporting to the IRS and whether any taxes need to be withheld. Taxes are withheld from employee wages, FICA and Medicare taxes are matched by the employer, and their earnings are reported on a form W-2. Taxes are generally not withheld from independent contractors and their earnings are reported on a form 1099.

The relationship between the worker and the organization is what determines the classification as an employee or IC. There is no one determining factor; there are several to be considered. The most important factor is whether the organization has the right to control how the work is done. The organization can always determine the work product; but if it can control the way the work is done, the relationship is deemed to be weighted more towards an employee/employer relationship.

Another factor is whether the worker is at any risk of financial loss. If the organization pays for all office expenses, training, software, or items normally considered employee benefits, then there is little financial risk for the worker and it will likely be an employee/employer relationship.

The IRS and the courts will also consider they type of relationship that was intended but this is not a deciding factor.

State and Local Laws and Regulations

The IRS is not the only government agency that requires information or fees from organizations.   Local jurisdictions vary but generally require business licenses and possibly business personal property tax returns.

States usually require an annual report (with a small fee) and, if you were incorporated in a different state, you will need a registered agent in your home state.   Failure to file the annual report with the state can result in termination of the corporation.

Recordkeeping

The chapter should split its files into permanent and annual categories.   The permanent files are kept until the termination of the organization.   They include the incorporation documents, by-laws, corporate minutes, and IRS determination application and letter.

Annual files include the general ledger, bank statements, paid bills, IRS forms such as 990, W-2/W-3, and 1099/1096, any IRS correspondence, contracts in force during the year, files for terminated employees, and state/local filings.   These annual files should be kept for seven years and should then be shredded. It is a good practice to box each year separately so that they can be easily segregated and destroyed.