

## **Bookkeeping Basics**

It is extremely important to keep precise records of every financial transaction conducted on behalf of your organization. Whether or not your organization is required to file a 990 (tax return), proper bookkeeping will help you to assess your financial position, evaluate your spending habits, analyze the success of fundraising campaigns, plan for expansion of programs and services, and properly acknowledge contributions.

Although there are a lot of software programs that make bookkeeping almost as simple as balancing a checkbook, it is important to grasp the methodologies used to keep track of your organization's money. Even if a volunteer or accountant does your bookkeeping, understanding the financial reports they prepare will help you make better business decisions. Because board members are responsible for an organization's financial position, each member should have knowledge of basic bookkeeping and the ability to read financial statements.

There are three types of financial statements that should be prepared each month:

- An **Income and Expense Statement** (also referred to as a Profit and Loss Statement) shows money-in and money-out over a period of time. When your income exceeds your expenses, you have a **surplus**.
- A **Balance Sheet** shows your fund balance as of a specific date. This is determined by subtracting your **liabilities** (what you owe) from your **assets** (what you own). Assets can be fixed (long-term) or current (easily converted into cash). **Accounts Receivable** are funds you are expecting to receive in the future and are considered an asset. **Accounts Payable** are the bills you need to pay and are an example of a liability.
- A **Cash Flow Statement** shows the change in cash-on-hand during a specific period of time. Cash-in is added and cash-out is subtracted from the beginning cash balance.

A **chart of accounts** is a specific categorization of your income, expenses, assets, and liabilities. Each of these is broken down and might include:

**Income** – Donations, Grants, Membership Dues, Revenue from Special Events

**Expenses** – Salaries, Rent, Postage, Printing, and Supplies

**Assets** – Building, Computers, Equipment, Furniture, Petty Cash, and Bank Accounts

**Liabilities** – Credit Cards, Mortgage, and Bills

To ensure your financial integrity, make sure to:

- Keep all of your receipts and organize them so they are easy to find
- Use a bank account and keep your organization's money separate from any personal funds
- Have two people review and sign every check; if possible, have a third person prepare and process checks
- Prepare and analyze financial statements at the end of every month and year, comparing them to the last period
- Work with an accountant to set up a system that makes sense for your organization