Month End Protocols
Preparation for Monthly Financial Statements

General Notes for Month / Year End Protocols
For Small or Midsized Nonprofit Organizations

MONTHLY

A good rule of thumb is to print a trial balance and thoroughly check each Statement of Position (SOP) (old term "balance sheet") item, seeing that it reconciles to a bank statement or internal schedule (spreadsheet or list). A review of the month's general ledger for income and expense transactions is wise to make sure that account assignments and activity allocations are correct for the Statement of Activities (SOA) (old term "income statement" or "profit & loss"). Some typical monthly and annual adjustments follow:

Reconcile each Bank Account

During the reconciliation process, the following adjustments may be required:

Credit Card Discounts	(Decrease Cash/Increase Expense)
Interest Earned	(Increase Cash/Increase Interest Income)
Bank Fees	(Decrease Cash/Increase Bank Fees Expense)
Voided Checks*	(Increase Cash/Decrease Expense or Increase Accounts Payable)

- Investigate and resolve outstanding checks and uncleared deposits that are over 60-90 days aged.
- *<u>Do not void a check from a prior period</u> that has been closed, as it will change reconciled cash balances. Use a Journal Entry to increase cash and increase miscellaneous income (or other appropriate account) in the current month. Clear both the entry and the old check during the next bank reconciliation process.

Reconcile Petty Cash and Change Funds

At the end of each month, or more frequently if needed, count the petty cash in front of a witness and add up the receipts. The cash plus receipts should equal the petty cash ledger balance. Make a journal entry to account for the receipts (or extra cash if any), adjusting the petty cash balance accordingly. Issue a new check to the petty cashier to replenish the fund.

Expenses per receipts	(Increase Expense/Decrease Petty Cash)
Extra cash	(Increase Petty Cash/Increase Income account)
Replenish petty cash	Write check debiting (increasing) the Petty Cash account

- If a Change Fund account has been established (Increase Change Fund/Decrease Cash) to account for making change for patrons at door sales or a special event, this fund must also be reconciled. After the event, sometimes a change fund is accidentally deposited along with revenue from the event and counted as income. When the change fund is returned to the bank in a deposit, the change fund account balance should become zero (Increase Cash/Decrease Change Fund).

Interest/Investment Adjustments / Unrealized Gain (Loss) on Investments

Reconcile statements from brokerage accounts.

Interest / Earned (+)	(Increase Cash/Increase Interest Income)
Dividend Earned (+)	(Increase Cash/Increase Realized Gain)
Fees (-)	(Decrease cash/Increase Bank Fees or Investment Fees expense)
Adjust to Market Value (+/-)	(Account for unrealized gain (loss) and/or transfers, etc.)

Record Receivables

Record as receivable any promises to give or grant award letters that have arrived without payments. If you are tracking the receivables through the "create invoice/receive payment" feature of QuickBooks or other accounting software, be consistent and this entry will take care of itself.

DR (Debit/Increase) Accounts Receivable
  CR (Credit/Increase) appropriate income account

- Be sure to reverse the receivable (Increase Cash / Decrease Accounts Receivable) when a payment is received and not double book income.
- Review the list of accounts receivable each month to verify balances are correct.
- Investigate and resolve outstanding receivables that are over 60-90 days aged.
- <u>Do not void invoices from a prior period</u>; instead record a currently dated credit memo.

Prepaid Expenses per schedule

Expenses that are for subsequent year purposes or paid in advance for ongoing services or benefits should be recorded as prepaid, an asset account. Record these as actual expenses (via journal entry below) when the supplies are consumed, the services/benefits are received, or time period has arrived, etc.

DR (Debit/Increase) Appropriate expense account and assigned activity class
  CR (Credit/Decrease) Prepaid Expense asset account

- A schedule (spreadsheet detailing prepaid expenses indicating when to expense the prepaids, and into which expense account and activity class) should be created and updated each month.
- This can also be done quarterly if activity is minimal, but monthly is more accurate.
- To be most conservative, expenses that pertain to a new fiscal year but cannot be recovered via returning items or canceling remaining service/benefits should be recorded in total as of the first day of the new fiscal year.

Inventory Adjustments

To record sales and depletion of inventory.

DR (Debit/Increase) Ending Inventory Expense
  CR (Credit/Decrease) Inventory Asset account

- This can be done quarterly if preferred.
- Increases to inventory are usually done at the time of purchase of new inventory items.
- Some accounting software packages, if set up to do so, will track inventory through sales transactions, inventory item purchases, and cost of goods sold.

Depreciation per schedule

An organization should have a capitalization policy for purchases of equipment, furniture, fixtures, and/or leasehold improvements that have a useful life over one year and cost more than an established threshold amount. For a small or midsized organization that amount might be $750-$1,000. Any purchases that are long-lived and exceed the approved threshold should be recorded as a fixed asset. A list of all these purchases (called a Depreciation Schedule or Fixed Assets Schedule) should be maintained that includes the date of acquisition, item description, cost, number of years of its useful life. The schedule should calculate the amount to be depreciated each period and show accumulated depreciation and the net value after each year's depreciation. Each month, depreciation expense should be recorded via journal entry:

DR (Debit/Increase) Depreciation Expense
CR (Credit/Increase) Accumulated Depreciation (a "contra" or negative asset showing the decreases in asset value as it is depreciated.

- Recording depreciation expense can be done quarterly if preferred, but monthly provides more accurate financial reporting.
- Be sure to update the Depreciation Schedule when any new equipment is acquired. The schedule is set up to calculate depreciation expense based on the number of years over which the asset is depreciated and can be used to help with budgeting for depreciation expense in future years.
- Keep a master file folder for the purchase receipts for each item on the schedule; auditors probably will want to see or keep copies to verify increase to fixed assets.
- Also be sure to update your insurance coverage inventory with each new significant fixed asset purchase.

Record Vendor Accounts Payable

If you are tracking the payables through the accounts payable/pay bills feature of QuickBooks or other accounting software, be consistent and this entry will take care of itself. When you enter a bill:

DR (Debit/Increase) appropriate expense account (or Decrease a Liability account).
CR (Credit) Accounts Payable liability account

- Be sure to reverse payables (Decrease Accounts Payable / Decrease Cash) when the bill is paid and not double book expense.
- Review the list of accounts payable to verify balances are correct. Investigate and resolve outstanding payables that are over 60-90 days aged.
- <u>Do not void bills from a prior period</u>; instead record a currently dated credit for the vendor.

Payroll Liabilities

We recommend using an outsourced payroll service as a good risk management choice for most small or midsized nonprofit organizations. Develop a memorized transaction to record the cash requirements of the salary and related expenses in the appropriate expense or liability accounts using the outsourced payroll service statements as reference; assign salary and related expenses to the appropriate activity class or project.

Deferred Revenue / Refundable Advances

Cash received in advance for services to be performed in the future is either deferred revenue or a refundable advance; both are liability accounts. A schedule (spreadsheet listing with details) should be kept to plot when the income is likely to be earned/recognized and which income account and activity class to use. Refer to the schedule to determine if any income can be recognized each month. When the income is earned, it is recognized via journal entry as below.

DR (Debit/Decrease) Deferred Revenue (or Refundable Advances)
CR (Credit/Increase) appropriate income account

Temporarily Restricted Income Release (SOA)

Contributions or grants that have been restricted by the donor for a particular purpose or for a future time period must be accounted for separately from unrestricted operating activity. Such contributions should be recorded as restricted income at the time they are promised and then released from restriction after the designated time has arrived or money has been spent toward the restricted purpose. A journal entry is made to release amounts from restriction:

DR (Debit/Decrease) Release to Unrestricted (Other Income, a "contra" account that shows a negative balance reflecting the decrease in Temporarily Restricted)
CR (Credit/Increase) Released from Restriction (Income account) **OR**
CR (Credit/Increase) Natural Income account category (such as Foundations)

- This is a net-zero transfer or reclassification from temporarily restricted funds to unrestricted based on the fulfillment of the restricted purpose or condition. It affects income and other income accounts in the Statement of Activities (SOA).
- The entry can be done monthly, quarterly or annually as appropriate for your organization and level of activity between funds.
- Accepting restricted contributions and accounting for them properly is an important responsibility of nonprofits. Maintain a schedule (spreadsheet with details) indicating increases and releases as they happen. Be sure to print out and keep on file an expense report that verifies and documents the basis for releasing purpose-related funds each month.

Salary/Fringe Allocations

We recommend using an outsourced payroll service as a good risk management choice for most small or midsized nonprofit organizations. Develop a memorized transaction to record salary and related expenses in the appropriate expense or liability accounts from the outsourced payroll service statements, assigning salary and related expenses to the appropriate activity class or project. Of particular importance is to track the % of salaries, employer payroll taxes, and fringes devoted to program, administrative or fundraising functions, and to assign (allocate) them to these activities as appropriate.

Postage / Copying Allocations per logs

If postage and copying are not coded by account on a meter, ask your staff to keep a log noting the appropriate program, administrative, or fundraising activity to which the expenses should be assigned. Make allocations monthly or quarterly based on these logs via journal entry.

Common Cost Allocations

Sometimes it is appropriate to allocate common costs such as depreciation, occupancy, utilities, phone, Internet, etc. to programs, administration, and fundraising functions based on an acceptable, established methodology such as following the salary allocation or calculating square footage per function. Discuss the right methodology to use with your accountant. Make allocations monthly or quarterly based on the chosen methodology via journal entry.

ANNUAL

Receivables and Payables

Check for "subsequent events" – receivables and/or payables that should be counted as transactions relative to the year just ended, even though they may have been processed after year end. Check also for "prepaids" – expense transactions related to the new fiscal year that were processed before the end of the previous year. Accrue these as appropriate.

Salary Fringe Allocations / Accruals

At year-end, double check that all salaries and fringes have been assigned to appropriate accounts and activity classes. Include wages/fringes payable at year-end and changes to accrued vacation or other leave balances.

Workers Comp / Unemployment Insurance Allocations

These expenses should be spread (allocated via journal entry) in the same proportions between program, fundraising, or administrative activities as for salaries. In the case of workers' comp, there may be specific rates for different types of employees. (i.e. The insurance rate for clerical workers is different than for dancers or shop carpenters.)

Year-End Postage Inventory / Other Supplies

If you keep stamps or other consumables on hand that are not already carried as a prepaid expense or inventory asset, the value of the remaining inventory (if a material amount) should be moved from the expense account to the prepaid or inventory (asset) account and then reversed in the opening month of the new fiscal year.

Reclassification of Temporarily Restricted / Unrestricted Net Assets (SOP)

Balances of all net asset categories need to be updated based on activity resulting from fulfillment of the restricted purposes or conditions and/or any increase in restricted contributions. This can be done monthly or quarterly in conjunction with releases on the SOA or at year-end via journal entry.

Reconciling Statement of Position (balance sheet) Closing/Opening Accounts

After entering the auditor's year-end adjustments, if any, double-check that your financial statements, produced by your accounting software, match the audit figures. This ensures that all audit entries have been entered into your accounting software correctly as of the year-end date and that your subsequent internal statements will be accurate. This is particularly critical for SOP account balances as they carry over from year to year. But it is important also for SOA ending balances to match so that your accounting software can produce accurate prior year comparative statements.

AT BEGINNING OF EACH FISCAL YEAR

Reversing Entries

Get instructions from your accountant or auditors. Reversing entries usually have to do with subsequent payment of wages / fringes payable, subsequent events, and recording of postage or other inventories, etc. that were recorded as "prepaid" or "accrued expenses" at year-end.