Accounting Policies and Practices

Four Creeks Unincorporated Area Council Treasurer

The Four Creeks Unincorporated Area Council (FCUAC) is a Washington State non-profit company recognized by the United State Internal Revenue Service (IRS) as a 501(c)(3) Public Charity.

Summary of key policies and practices
- FCUAC is required to file an annual report with the WA State Secretary of State. At its current income levels (i.e. less than $50,000), FCUAC is required to file an annual information tax return using IRS form 990-N.
- FCUAC uses cash basis accounting. The only exceptions are grant revenues received after year-end, which are dated December 30 of the year the grant was approved. Note that the only journal entry allowed on December 31 is the bank statement.
- FCUAC follows generally accepted accounting practices (GAAP) which defines three major expense categories: program related, fundraising, and management & general expenses (M&G).
- Financial transactions are posted first-in, first-out (FIFO). This is relevant to grant funding that is similar year-to-year. For example, the National Night Out safety service applies for and receives funding annually. NNO expenses for the current year are posted against the oldest previous year fund that may have a remaining balance.
- FCUAC uses “funds” to organize and separate its financial assets. Along with its general fund, other funds are created as needed. Since funds, particularly grants, can have a separate purpose and/or time period, new funds are often created each year.
- To provide money to the FCUAC general fund, a percentage of the income from grants and undesignated donations is transferred to the general fund. Currently, the transfer rate is 5% of the income. That percentage is reviewed periodically to assure it is close to the amount needed in the general fund to cover M&G expenses.
- Receipts and other financial transaction evidence is usually retained three (3) years. There are a few finance-related documents that are retained permanently.

The Four Creeks Unincorporated Area Council (FCUAC) Accounting Policies and Practices are an official document of the FCUAC Treasurer[1].

It includes:

- Governance: the things that govern the organization’s business practices
- Accounting: the organizations approach to financial accounting
- Funds: the way that the organization uses accounting funds
- Record Retention: the organization’s record retention policies

GOVERNANCE

FCUAC’s business practices are governed by:

- WA state business license requirements
- IRS 501(c)(3) exempt status requirements
- Grant, donation, and contractual requirements

[1] FCUAC Treasurer authorities are documented in the organization’s bylaws.

WA state business license

Washington State Secretary of State (SOS) requires non-profits to submit an annual report. Among other things, the report includes the list of governors (FCUAC officers), nature of the business (charitable, educational), and controlling interests (e.g. WA property, transfer of controlling interest).

IRS 501(c)(3) exempt status

A 501(c)(3) organization must faithfully comply with all the rules and restrictions that come with that favored tax status, and that organization must be able to prove its compliance with these laws.

The IRS requires charitable organizations with annual revenues under $50,000 to file an annual information return via form 990-N.

Grant, donation, and contractual requirements

FCUAC usually receives funds from donations, grants, or contractual arrangements.

- These funds often specify requirements such as what the funds can be used for.

Accounting

GAAP

FCUAC follows Generally Accepted Accounting Practices (GAAP) that provide general guidance into the three major expense categories: program related, fundraising, and management and general expenses (M&G).

Major accounting method

- FCUAC financial books operate on a Cash Basis, and are First-In, First-Out (FIFO).
- Effective dates for financial transactions are usually the bank posting date.
  - However, grant revenues deposited after year-end are dated December 30 in the year the grant was approved.

Funds

FCUAC uses accounting “Funds” to organize and separate it financial assets, organized into two general categories of accounting Funds:

- Income Funds: Funds from grants, donations, or contractual arrangements that specify intended use of the funds.
- General Fund: Funds that are used for Management and General expenses, or other uses at the discretion of the FCUAC Board or Treasurer.

Income funds

- FCUAC accounting uses a separate *fund* for every grant, donation, and contract income received.
- A *fund* has a purpose, objective, and possibly a time period that can only change if authorized by the source of the funds (e.g. donor, grant source).
- A *fund* is created any time there is a new purpose, objective, and time period associated with donations, grants, or contract income.
- Funds have a designated *sponsor* that authorizes fund expenditures. Sponsors are usually FCUAC Board members.

General fund

Purpose

- The purpose of the *General Fund* is for resident participation, education, charity, or management & general expenses.
  - *Management & General* expenses include P.O. box rental, WA licensing fee, IRS tax return submittal fee, general liability and directors/officers' insurance premiums, meeting room fees, printing/copying, general supplies, business cards, and other miscellaneous account fees.

In recent years the only M&G expenses have been the P.O. box rental, WA licensing fee, and the IRS tax return submittal fee.

Funding

- The *General Fund* receives funds via authorized transfers from grants and *undesignated* donation income.

Authorized transfers

The Treasurer is authorized to transfer a percentage of income from grants and undesignated donations to the *general* fund, unless specifically prohibited by the income fund source.

- The current transfer rate is 5%.
- The percentage (rate) is periodically reviewed and updated, if warranted.
  - The objective is to keep the transfer rate as low as possible while still providing adequate funds to cover M&G expenses.

The transfers are booked in the Journal when the funds are received. A transfer includes a credit to the income fund and a debit to the FCUAC general fund (FCUAC).

Expenditures

- Expenditures from a *fund* must align to the original purpose, objective, and, if appropriate, the year of the funding.
- Service Sponsors[2] can authorize expenditures from the funds related to the service.
- The treasurer can authorize expenditures from the General Fund.
- Anyone authorizing expenditures are expected to validate the expenditure amount with invoices, or in the case of reimbursement requests, receipts. However, the treasurer does not require or store receipts in order to issue reimbursement payments.
- The treasurer assumes that the authorizing individual (e.g. service Sponsor) has validated the legitimacy and accuracy of reimbursement requests.
- The treasure does require reimbursement requests to state what the purchase was for (e.g. chemicals, food).

Transfers between funds

- A majority vote of the FCUAC board may authorize transfer of money between *funds*.

New Funds

- When new funding is approved (e.g. current year CSA grants), a new *Fund* is created.
- During annual bookkeeping, any balance from similar prior year funding is transferred to the new *Fund*. For example, National Night Out (NNO) events usually occur annually. Remaining balances from prior year grants or donations are transferred to the current year NNO fund.

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[2] Each FCUAC service has an identified Sponsor on the board.

Records retention and destruction

The FCUAC records retention and destruction policy identifies the record retention responsibilities of staff, volunteers, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records.

Generally, document retention requirements are governed by the IRS and the time period that a potential claimant must bring a claim in WA State.

> The records retention requirements for WA State and the IRS are 3 years.

- FCUAC maintains a detailed Journal of all financial transactions (e.g. debits or credits from financial accounts and/or accounting "funds".
  - IRS "statute of limitations" on tax returns is normally 3 years unless things like audits have occurred.
  - WA State statute of limitation on relatively minor crimes is 3 years. Much longer periods apply to major crimes (e.g. rape, arson, theft).

Permanent retention

Some documents are identified for permanent retention. These are common for FCUAC:

- Articles of Incorporation, along with any modifications
- Determination letter from the IRS, and any relevant correspondence
- Minutes of board meetings where significant decisions are made
- Corporate resolutions
- Financial statements (year-end)

These are less common, or not currently relevant, to FCUAC:

- Audit reports
- Insurance policies

Document destruction

- All FCUAC financial and organizational documents must be shredded when being destroyed.
- Periodically there are free "shredding" events hosted by local jurisdictions. Retail organizations, such as UPS and Staples, have shredding services available at small cost.