

Beyond **NUMBERS**

Preparing for the End . . . Year-End, That Is.

by Rebecca DaVee, CPA

AFTER YEAR-END, churches and other tax-exempt organizations cringe as they anticipate trying to “close out” the general ledger and record the year-end adjustments and accruals. To ensure that the data used for financial reporting is accurate and complete and provides a clear picture of the financial position of the organization, it is important to close the books properly. The following list, intended to be used for the accrual basis accounting, is a helpful tool to guide organizations to review the chart of accounts, identify the typical year-end reconciliations and sub-ledgers, and properly “close out” year-end.

CASH AND CASH EQUIVALENTS

- Perform bank reconciliations for all depository accounts. While performing the bank reconciliations at year-end, the accountant or treasurer should look at any unusual reconciling items that may indicate transactions were not recorded completely and accurately and review the outstanding checklist to determine whether to write off old outstanding checks or contact the payee if the check has been lost. These types of adjustments should be reviewed and approved by the treasurer.
- Review investment statements to determine that all cash equivalents are properly classified.

RECEIVABLES

- Record unconditional promises to give, if applicable. An unconditional promise to give is a pledge to donate cash or other assets for which no event has

to take place for the entity to receive the money. FASB Statement No. 116 requires that unconditional promises to give cash or other assets are considered a contribution when made/received and therefore should be posted in the accounting records. Unconditional promises to give are often received in conjunction with a fundraiser or other special event to raise operational funds.

- Ensure that employee advances (for travel) and other expenses have been properly recorded, reconciled and reviewed for collectability.
- Ensure any interest from savings accounts or investments has been accrued (if earned and not received as of year-end).

INVENTORY

- Determine that goods obtained for sale by the church, such as items sold in the bookstore, have been recorded in inventory and not expensed. The materials should be recorded as a debit to inventory and a credit to cash or accounts payable. If the church purchases or receives materials to be used for ministry operations, these items should be capitalized and expensed when used.
- Perform an inventory count and compare physical counts to inventory records at year-end. Investigate and resolve unusual reconciling items.

PREPAID EXPENSES

- Ensure that expenses that have been paid in advance are recorded as a prepaid asset and are not included in current year expenses. The most common

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prepaid asset is prepaid insurance. An organization typically pays for an annual insurance contract at the beginning of the contract term. For example, if the annual contract covers a period starting on July 1, 2008, and the organization has a December 31, 2008, year-end, half of the insurance expense has been incurred and should be recorded as insurance expense. The balance in prepaid expense should be amortized and charged to expense over the remaining term of the policy.

INVESTMENTS

- Record periodic adjustments, either monthly or quarterly depending on activity, for changes in market value of investments and gains/losses.
- Review the month-end or quarter-end statements to make sure that all purchases and sales have been properly recorded in the general ledger.
- If you are holding any investments donated during the year, determine that the investments were recorded at their fair value at the time of the donation, and post a debit to investments and a credit to non-cash contributions (contribution revenue).

- Determine whether other types of investment activity (i.e., derivatives or impairments) should be recorded in the general ledger or disclosed to the board members.

PROPERTY AND EQUIPMENT

- Reconcile the detail property records with the related general ledger accounts. Critically review the listing to make sure all disposals have been properly identified and recorded, including any gain or loss.
- Review repairs and maintenance accounts for items that may need to be capitalized according to the organization's capitalization policy.
- Reconcile depreciation expense to make sure that it is properly recorded at year-end.
- Make sure that all capital lease transactions have been properly recorded. SFAS No. 13 provides the criteria for recording an asset related to a lease.
- Review board minutes for donated property and equipment to make sure that the items have been properly recorded.
- Assets donated to others and any related accumulated depreciation should be removed from the books and, if applicable, any loss should be recorded.

OTHER ASSETS

- Determine whether there are any intangible assets, and if so, whether they have been impaired.
- Review and reconcile other assets to proper support.

ACCOUNTS PAYABLE

- Accrue any liabilities for expenses paid subsequent to year-end for services or goods received during the fiscal year.
- Reconcile the detailed subsidiary ledger to general ledger accounts. Review the listing for large balances, balances over a year old, debit balances, and unusual items and propose adjustments as needed. These types of adjustments should be reviewed and approved by the treasurer.

ACCRUED EXPENSES

- Accrue liabilities for payroll expenses paid subsequent to year-end for work performed during the fiscal year.
- Accrue and adjust as necessary the liability for paid vacation or sick leave, if it has been earned and will be paid subsequent to year-end.
- Reconcile withholding accounts to payroll reports for the year to make sure that amounts withheld from payroll agree to amounts recorded in the withholding accounts.
- Reconcile 941s to respective general ledger accounts.
- Review board minutes and make sure that all compensation has been properly identified and reported on the employees' W-2s.
- Make sure that the housing allowance is properly approved prior to payment or changes in subsequent year's payments.
- Verify that employer contributions to retirement accounts have been properly identified and accrued, if applicable.

DEFERRED REVENUE

- Be sure that any refundable deposits received before year-end for events occurring after year-end are recorded as deferred revenue and not included in current year revenue.

NOTES PAYABLE

- Reconcile statements with financial records and record any accrued interest (interest owed that has not been paid as of year-end.)
- Search for and record any capital lease obligations. SFAS No. 13 states that the obligation should be recorded at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lesser, together with any profit thereon.

OTHER LIABILITIES

- Review and reconcile other liabilities to proper support.
- Determine if any taxes (including UBIT) should be recorded.
- Determine if there are any contingent liabilities such as pending litigation, accrued compensation, or reportable benefits that need to be recorded.

NET ASSETS

- Reconcile net assets to make sure that they roll forward from the prior year. Make sure all audit or prior period adjustments have been properly posted in the correct reporting period.
- Reconcile the detail of restricted and designated net assets to the financial records and donor restrictions.

REVENUE AND EXPENSES

- Summarize activity from restricted contributions and expenses and compare contributions to supporting documentation.
- Reconcile the donor database (contribution detail) to the respective general ledger account.
- Review miscellaneous income and expense accounts to determine if any classifications should be classified differently and adjust accordingly.
- Review prior year accruals and determine if any adjustments affecting the current year operations should be proposed.
- Reconcile lease payments to support, making sure all accruals have been properly posted.

FINANCIAL REPORTING/ GOVERNANCE


- Prepare a preliminary trial balance and compare all subsidiary ledgers with the year-end accounts, performing reconciliations and adjustments as necessary.
- Review preliminary financial statements with the treasurer and senior pastor, before the board meeting.
- Provide year-end statements and supporting schedules, as needed, to the board prior to the board meeting.

To ensure that the data used for financial reporting is accurate and complete and provides a clear picture of the financial position of the organization, it is important to close the books properly.

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- Review board minutes to make sure all decisions affecting balance sheet and activity statement transactions have been properly recorded and that substantiation of transactions is available for review.

Using the above list as a "closing checklist" will help tax-exempt organizations identify normal/recurring closing adjustments; however, this list should not be viewed as "all inclusive." Management is ultimately

responsible for the internal control structure and financial reporting policies, and, therefore, executive management or the board may require additional closing procedures. We recommend that the church accountant review the closing procedures with the senior pastor and the board treasurer and then "formalize" a policy for closing the books. 



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