

## Seed Project Accounting Guidelines

Your Seed Project is a non profit business. Like any business, you need to keep good records of all your financial transactions. Because you will probably receive donations, and because you will be reporting to us at least once a year, there are also a couple of extra things required in accounting for your non profit business.

In these guidelines we will give you some ideas and examples of how to keep your account records. For most Seed Projects, accounting is simple and probably easier than keeping the records you would need for tracking your household budget or filing your personal tax return. However these guidelines are not a primer on bookkeeping so if you have no idea what an "expense" is or how to balance a checkbook you need to hire or enlist a volunteer who is familiar with basic bookkeeping.

Here is a summary of the important tasks you need to manage for your project's accounting.

- **Keep receipts for all of your expenses and all of your income.** If your project finances are fairly simple you may be able to keep just one file for the year's expense receipts and one file for the year's income receipts. Keep all of your receipts for at least 3 years. 7 years is the maximum you need to store your receipts.
- **Record all of your expenses.** Depending on the complexity of your project you may do this in your checkbook register or you may need separate accounting ledgers or software.
- **Record all of your income.** Keep a record of every donation or other source of income for your project, not just a total of what is deposited into your account.
- **Report to us at least once a year.** You need to send us an annual financial report showing the total income your project received during that year, the source of any donations over \$5,000, and a detailed listing of all your expenses for the year. For simple projects the listing of expenses can be a copy of your checkbook register.

For each of these tasks you will need to record specific information (check numbers, the purpose of an expenditure, etc.) so you may want to set up your accounting by copying the pattern of the examples we give later in these guidelines. That way you can be sure you remember to record everything that is necessary.

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### **Keep receipts for all of your expenses and all of your income.**

It's important to have receipts for your expenses. If you buy paper for your computer's printer or pay for airport parking for business travel, be sure to save every receipt. Recording it in your check register or ledger is important but you also must have a receipt. Actually for expenses under \$25 this is not a requirement but we want you to keep ALL your project receipts, even the small ones, for at least 3 years. If you don't have many you can keep them all in one file for each year ("2010 Expense Receipts"). If you have room to store them we suggest keeping all project receipts for 7 years.

You also need to have receipts for every donation you receive that is valued over \$50. We want you to have receipts for the smaller donations too but that is not a rule. You create your own project's donation receipts using the samples we have provided. Give one copy to the donor and keep one copy in your files. You could have just one file for these for each year ("2010 Donation Receipts"). Be sure to fill out the donor's name and address and to describe the donation ("cash", "check", "100 shares of IBM stock", "used desk and office chair"). You'll find more information about donations later in these guidelines.

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### **Record all of your expenses.**

Keep a record of every expense, using your checkbook register or a ledger or software. You will need to add up all of your expenses so we have a total for each year. You may want to keep a current total for the current year's expenses in your checkbook register or ledger. You need to record the date, the nature of the expense, the amount, and a memo if needed to identify how it was used by the project.

### **Reimbursement Expenses**

Sometimes staff will use personal funds to make a project related purchase. Reimbursements for these expenditures can only be made after the project receives receipts justifying that reimbursement. Every reimbursement check paid by your project needs detailed accounting showing the non profit purpose of each expense, such as "\$6.50 reimbursement for computer printer paper" or "\$78 reimbursement for airport parking for trip to build orphanage in Uganda". To reimburse someone for mileage driven on behalf of the project the driver needs to keep a mileage record with dates, miles driven and the non profit purpose. They must give the project a receipt that has that data. Mileage is then reimbursed at the current rate used by the IRS for that tax year. We suggest any driver for your project be required to have a mileage log and keep full records of the dates, mileage driven and purpose of that trip. These logs are available at office supply stores.

If someone needs reimbursement for several expenditures then it can be handled like businesses reimbursing employees for travel expenses. The person submits an itemized accounting of all their expenses together with copies of all the receipts. **No receipt? No identification of the non profit purpose of an individual expense? That means no reimbursement from the project for that expense.**

Your project can record reimbursements in its ledger with general details like "reimbursement for travel expenses for October fundraiser and for office supplies". You don't need to copy each item into your ledger as long as you have them itemized in your files together with the receipts.

### **Examples of Expense Ledger Entries**

Here are some examples of how to record your project expenses.

Expense Ledger:

Date	Check #/Cash	Expense	Amount
1/09/07	#232	Mary Marble	\$ 42.16
Memo: Reimbursement for mileage, San Francisco Recycling Conference			
2/27/07	#233	Mary Marble	\$684.27
Memo: Reimbursement for office supplies and travel; see file for details.			
3/16/07	#234	ABC Supermarket	\$159.89
Memo: Food and supplies for 5/30 fundraising dinner			
5/26/07	Cash	Office Warehouse	\$ 6.10
Memo: Office supplies			
6/11/07	#235	Mary Marble	\$80.00
Memo: reimbursement of \$30 for food (Safeway receipt 6/3/07), \$40 paid to Joe Smith for driving time for food delivery to orphanage (receipt 6/3/07), \$10 for mileage (receipt 6/3/07).			

These are examples of common non profit business expenses and how much information you need to keep in your records for them. Notice that the first two expenses we show are reimbursements.

In our first example assume that Mary was one of your staff and that she submitted a mileage receipt for miles driven to a conference where she was representing your project. You need to have a receipt from Mary with the dates, her mileage and the purpose of the trip, based on her record kept in her mileage log. You use the current IRS mileage rate to determine the amount for her reimbursement and you have her receipt in your file.

Our second example shows how you can record a reimbursement for multiple items. Assume that Mary submitted an itemized accounting and copies of all her receipts for several expenditures she made for your project, for various office supplies and for project related travel. The memo says "see file for details". You will have her itemized accounting of all these expenses and her receipts in your file.

Look at the final example to see an alternative for recording multiple items for reimbursement. That entry shows the individual expenses that are being reimbursed. You may prefer to list it in this way. Just be sure you have copies of receipts on file for each individual expense, not just the total reimbursement.

It may be easier for you to keep your records if you ask your staff to give you separate reimbursement requests for the categories you use in your project's accounting. In our second example Mary would have submitted one accounting for "office supplies" and another for "travel expenses". In this case she would have received 2 separate reimbursements and it would be 2 separate entries in your ledger. This makes your project's expenses easier for you to track.

**NOTE: A memo is required for every expense to explain the non profit purpose of the expenditure.** In our first example, the mileage reimbursement, the memo explains the business Mary was doing for the project. "Mileage" is not enough to explain the non profit purpose of the expense.

The third example we give is not a reimbursement; it's a purchase paid directly to ABC Supermarket from the project's account. In the memo for ABC Supermarket it shows that the food and supplies purchased were needed for your project's fundraiser. "Food and supplies" would not be enough information to tell us that the expense was valid. Write "5/30 fundraising dinner" on your receipt from ABC Supermarket and put it into your "2007 Expense Receipts" file.

The fourth expense example is one that was paid in cash, not by check. We strongly recommend that you avoid paying any project expenses with petty cash. It is too easy to forget to record these expenditures and accounting can get very messy. But this is an example of how you would record an expense you paid in cash. Notice that the memo identifies the purchase as office supplies even though the company name, Office Warehouse, tells us it was probably a purchase of some small office supply. Always identify the nature of the expense in your record. Even when it is obvious it is a good habit to keep, and sometimes what is obvious to you is not obvious to us. You do not need to itemize the supplies you bought but if you purchased an expensive item like a computer you should mention that in the memo. And of course put the receipt into your "2007 Expense Receipts" file. For big items like a computer you may want to make a copy of the receipt and staple it to the manual or warranty card in case you need to send it in for repairs.

You should have a blank receipt book (for an office supply store) available for any situation where you are paying someone who is not ready to give you a receipt. For example if your computer breaks down and you call a neighbor to fix it, you may pay your neighbor. You can use a standard receipt form and have your neighbor sign it to verify this expense.

We do not require projects to keep separate accounting of each type of expense. Our example above has a listing that is a mixture of office expenses and fundraising expenses and travel expenses. When you send us your annual financial report we need a listing of all your expenses and you can give us something like our example. (It may be a copy of your checkbook register with good memos for each expense.) But you may want to keep an additional ledger where you track the amounts your project spends on travel, office supplies

and other categories of expenses. If you have a significant budget or if you apply for grants, you will need to know how much you spend in different expense categories. You can use software that does this for you such as Quicken or QuickBooks.

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### **Record all of your income.**

Income from fundraising, money received from grants, interest earned, cash donations, and any other source of funds that you deposit into your project account are considered income. Goods and other non cash donations (art, vehicles, stocks, Real Estate) are also addressed in this section although your project may hold them as assets rather than convert them to cash. For example you might use a donated vehicle to do the work of your project. "Income" for the purpose of our accounting means everything of value that your project earns or receives as a donation.

Your income will be divided into two categories in your ledger, "Cash" and "Non Cash". Non Cash donations require more description to identify the donation (2006 Honda Accord, white, with 38,000 miles in excellent condition). Otherwise the records are very similar for both categories.

You can use software programs for all of your accounting or use pages in a notebook or use official accounting ledgers you buy from an office supply store. What matters is that you faithfully record every transaction, every donation received and deposit made and check written, along with enough details to verify them.

Some projects have very easy accounting, just a few cash donations and some simple expenses. Those projects may be able to use their checkbook journals for all of their accounting. If you do use your checkbook journal you will need to keep separate pages for your income deposits. Why? Because you need to record details for every separate donation, not just each deposit you make into your account. If you had a few people make contributions that you combine into one deposit, you would record "03/23/07 Deposit \$85: \$20 from Joe Jam, \$40 from Harry Hero, \$25 from Sue Snip". Even if you can use your checkbook journal for most accounting, if you receive any Non Cash donations you will need to record those separately. Non Cash donations are described later in these guidelines.

Now we will show you how to record your income from different sources.

### **Recording income from fundraising events**

This is a category of your income that will include any amounts you raise that are not recorded as separate donations. For example you might have a bake sale or sell hot dogs at a community event. You won't be giving each person that buys food a receipt for their donation. You need to record all the proceeds from your sale as income from fundraising. Of course you are doing fundraising when a donor writes you a check for \$500 too, but that is recorded as a cash donation because you give the donor a receipt for the individual donation.

Example: Income Ledger – Fundraising

Date	Event	Amount
3/17/08	St. Patrick's Day Bake Sale	\$1,568
Notes: No expenses, all supplies donated by ABC Market		
7/04/08	Fourth of July Ice Cream Stand	\$ 780
Notes: Spent \$120 on supplies, net income of \$640		
9/30/08	2009 Calendar Sales	\$2,115
Notes: Spent \$300 for the calendars, net income of \$1,815		

The last example is selling calendars to raise money for your project. If you sell calendars as part of your project's mission (for example, selling calendars to educate people about recycling) it is not a normal fundraising activity and would be reported elsewhere. All of the notes you record here are for your own benefit. You may want to track how much you net after expenses from various events to see what fundraisers work best for your project.

### **Recording income from sales of goods or services**

This kind of income is not common for our projects and we will not detail it here. It would be recorded as "Income from Sales of Goods or Services" using the same format that you use for income from fundraising.

PLEASE NOTE: If your project will sell anything regularly as a significant part of your project's mission, you must receive prior approval from the Board of Directors. We need to be sure that your sales are not in conflict with the rules of the IRS for 501(c)3 corporations.

For example, if your project's mission is to encourage people to recycle and your primary activity is selling educational materials in a stand at the mall, you will need to get prior approval before you engage in the sales. The same is true if your project income came from fees you charge to pick up recyclables. You need Board approval before you charge people for that service. However, if you are simply using calendar sales or recycling pick ups as one of your fundraising events then you do not need prior approval. Please contact us if you are not sure if an activity you are considering will need prior approval from the Board.

### **Recording income from donations**

You need to record the name and the address of each donor. The IRS uses the address to distinguish between people with the same name, and sometimes you will need it to mail your donor their receipt.

We recommend that you give receipts to your all of your donors. For tax purposes donors must have receipts for donations valued at \$250 or more. The donation receipts need to

indicate that the donor did not receive any goods or services in return for their donation or you need to include an estimate of the value of the goods or services the donor received. That part of the value will not be deductible for them.

You'll find some sample receipts in our documents or you can make your own if you prefer. Just be sure that it has all of the information we include in our samples. "Cash Donations" are the most common kind of donation for our projects. Be sure to write down the check number or put "CC" for credit card charges. "Non Cash Donations" are anything that is not money. You'll need to describe those donations ("100 shares of IBM stock" or "Building and land located at 3678 Pine St., Hollywood, CA, 93410" or "2 carat diamond pendant").

Always number your donation receipts. Make two copies so you can give one copy to the donor and keep one for your records. You'll find examples of both "Cash" and "Non Cash" Donations below to use in setting up your accounts for each category of income.

PLEASE NOTE: There are three cases where you need to communicate with us related to donations you may receive.

1. Copies of your receipts for donations of \$250 to \$1,000 must be sent to us with your Annual Accounting Report.
2. Receipts for any donation valued over \$1,000 must be sent to your donors by our Treasurer. Send us the donation check (or the itemized list for a non cash donation) together with your donor's name, address, phone number and email address. We will verify the donation, make the deposit to your account, and send both you and your donor a copy of the receipt. Large donors will often require this procedure. We do not charge you any fee to handle this accounting for your project.
3. Non Cash donations (boat, shares of stocks, house) valued at \$5,000 or more must receive prior approval from the Board. Send us an email describing what will be donated and what you intend to do with the donation (sell it now, sell it later, keep it to use for your project). Sometimes people donate things that can cost us money rather than contribute to your project so we need to approve these before you receive the donation.

### Recording Cash Donations

Cash Donations are direct monetary contributions. They can be made by cash or check or even credit cards. They are not stocks or bonds or other financial holdings that need conversion to become cash. Those are "non cash" donations. Cash donations should be recorded in your ledger under "Cash Donations".

Example: Income Ledger – Cash Donations

<u>Date</u>	<u>Donor</u>	<u>Amount</u>	<u>Kind</u>	<u>Receipt #</u>
10/02/08	Jimmy Jones 123 ABC Road	\$75	Ck 447	#34

Jimtown, CA 95123

1/24/09      Cindy Creek            \$5,000      CC            #35  
67 QYZ Ave., Apt. B, Creekside, OH 44882

Notes: Sent request for donation receipt to the Board on 1/24/09

2/28/09      Bob Bobble    \$15      cash

Having a place where you can write a memo or note in your ledger makes it easy for you to record any details worth remembering about a donation. Notice in the second example that the notes say "Sent request for donation receipt to the Board 1/24/09". Any receipt for a donation worth \$1,000 or more must be sent from our Treasurer. You'll find an email form in our documents to make that request. It just takes a minute to fill out and then email it to us.

The last example is missing the address for the donor and doesn't have a receipt number. That's OK because the donation was an amount under \$250. Even if the \$15 donation was by check or credit card it would be fine. It's still a good idea to give everyone a receipt and to get everyone's address but don't worry if you don't always do that for donations under \$250.

### **Recording Non Cash Donations**

Non Cash donations are not cash or checks or credit card charges. They are things of value such as stocks, real estate, art, or vehicles. Anything you can sell for cash can qualify as a "non cash donation". You do not have to sell a non cash donation; you may decide to use the thing for your project. Office furniture donated to your project can be used in your project's office. A vehicle that is donated can be used for your project.

PLEASE NOTE: Donations of vehicles require additional reporting to the IRS. Below is the web link to the form that was current as of 09/20/07. Please check to be sure that you use the most current form by searching at [www.irs.gov](http://www.irs.gov)  
<http://www.irs.gov/pub/irs-pdf/f1098c.pdf>

Unfortunately, for tax purposes, labor that is donated cannot qualify either as a cash donation or a non cash donation. A carpenter that helps build a children's playground for your project cannot deduct her/his hourly rate as a donation. You can pay the carpenter for the work and if she/he makes a donation of money to your project that would be a valid donation.

You must determine the "fair market value" every non cash donation. For donations of stocks, find the value of that stock on the stock exchange for the day it was received. You can do that on the internet or call a brokerage firm if you have trouble finding the stock's value for that date.



Other than donations of stock, if the non cash donation is worth less than \$250 you can accept the donor's estimate of the value, or estimate it yourself. The best way to determine the fair market value of a thing is to sell it and use the sales price as the stated value you put on the receipt to the donor. The IRS prefers this method. If you are not planning to sell the item soon then you need to determine what a comparable item sells for right now in your area of the country. For example, if Joe Smith donates a property with a house and you do not plan to sell it soon, you should approach a real estate firm or an appraisal company to determine a reasonable estimate of its value. For any goods donated that you may not be able to sell quickly, always get a written estimate of value by someone knowledgeable. Many store owners will do this free of charge for non profits. Keep the written estimate as a record along with your copy of the donation receipt.

#### Example: Income Ledger – Non Cash Donations

<u>Date</u>	<u>Donor</u>	<u>Value</u>	<u>Description</u>	<u>Receipt #</u>
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1/22/07	Jerry Garcia 629 Grateful Dead Road, Onetoke, CA 92223	\$95,000	Art	#46
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Notes: 10 paintings; donation receipt request sent to Board 1/22/07; appraisal on file attached to Receipt #46; photos of paintings also attached to receipt; intention is to sell at fundraising auction on 2/14/08

1/24/07	Huey Lewis 78 News St., Music, NH 14382	\$17,000	Guitar	#47
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Notes: 1 guitar; donation receipt request sent to Board 1/22/07; appraisal on file attached to Receipt #47; intention is to sell at fundraising auction on 2/14/08

2/01/07	L. V. Beethoven 1812 Cantata Ln., Lyric, NJ 12210	\$150	Sheet Music	#48
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Notes: 1 unfinished symphony of uncertain authorship; appraisal attached to Receipt #48; intention is to sell at fundraising auction on 2/14/08

3/18/07	Sheryl Crow	\$221.84	Stock	
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Notes: 14 shares ABC stock; value per NYSE on date received; intention to hold until value increases and then sell

Notice the different notes made for non cash donations. You may want to give even more description for these items. The more you record in your files the safer you are in verifying things if they are questioned. You may do more than just record items in your ledger, like keeping a photo of the donated items, as in the first example. And it is good to note your intention of selling or holding the items. Notice that the last item has no receipt. It is valued under \$250 so the receipt is not required. However, as we've said previously, we recommend you always give receipts to all your donors.