

AUDITING AND ACCOUNTING MANUAL



BENEVOLENT AND PROTECTIVE
ORDER OF ELKS
OF THE UNITED STATES OF AMERICA

GL A & A Committee Manual Revisions, August 2019

NOTE: This Manual went through a complete rewrite with the change from an Annual Financial Report to the monthly Financial Reporting System.

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2019-2020 Chairman
Grand Lodge Auditing and Accounting Committee



GRAND LODGE
Benevolent and Protective
ORDER OF ELKS
UNITED STATES OF AMERICA
A Fraternal Organization

— **FOREWORD** —

Each Local Lodge enjoys local autonomy and freedom of action in managing its financial affairs, limited only by the Laws of the Order. It must be remembered that the Lodge enjoys the privilege of its existence only because it is chartered as an integral part of Grand Lodge, the parent organization. Every Officer and Member is obligated to obey the Statutes, rules and regulations of the Order.

This manual provides advice, guidance and assistance to Local Lodge Officers, and others concerned, in the practical application of the Laws of the Order to matters of auditing, accounting, bookkeeping and budgeting. The objectives of this advice and guidance include:

- ◆ **To** encourage recognition of the fact that a Lodge is a business and that good business practices should be adopted.
- ◆ **To** emphasize that effective financial management should provide sufficient profit for the Lodge to grow and meet its fraternal and charitable objectives.
- ◆ **To** attain maximum uniformity in the application of the Laws of the Order and standardization of accounting and financial management practices.
- ◆ **To** encourage Lodges to become knowledgeable of, and comply with, all Federal, State and local tax laws.

This manual has been prepared by the Grand Lodge Auditing and Accounting Committee, which is composed of eight members, one for each Area (*for administration purposes, the U.S. is divided into 8 geographical Areas, each consisting of several states*).

This listing of Committee Members, and the Area assigned to each, is included in the annual publication "Grand Lodge and State Associations Directory" (Code 553800). The duties of each Committee Member include "periodic" review of the Monthly Financial Report of each Lodge within his Area and making recommendations to the Lodge. Careful study of this manual will assist the Lodge Officers and others to understand and act on such recommendations. It must be recognized that the users of this manual must possess basic accounting and financial knowledge. There is no intent to assume that members and staff using these guidelines will become qualified professionals in applying the acceptable standards of accounting. This manual is intended to apply to most situations unique to the preparation of consistent and factual Lodge Financial Statements. If the terminology used is foreign to the user, chances are that the end result of the required reports will be lacking in accuracy. Lodge leadership at all levels should insist on the use of computer-generated books. These systems generate automatic Journals, Ledgers, Departments and Budget Comparisons and Financial Statements.

Lodges operating under a State Corporate Charter must establish a Board of Directors as defined by G/L Statutes, Sec. 12.070 and 16.020. Where Trustees' duties are listed in this manual, the instructions also apply to the Directors. The manual will, of necessity, be revised from time-to-time. Revised pages will be identified by the date of the revision. You are encouraged to forward any comments or suggestions for improvements to the appropriate Area Member of the Grand Lodge Auditing and Accounting Committee.

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- Exhibit B — GUIDE FOR REVIEWS BY LODGE AUDITING & ACCOUNTING COMMITTEE
- Exhibit C — EMPLOYMENT OF ACCOUNTANT – CONTRACT TO PERFORM A FINANCIAL REPORT
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- Exhibit H — GLOSSARY OF TERMS COMMONLY USED BY ELKS LODGES

ACCOUNTING AND BOOKKEEPING

1-101. General: Section 16.110 of the Statutes states that every Lodge shall keep records necessary to present clearly the receipts and accounts of the Secretary and Treasurer, and general financial and other transactions of the Lodge. Every Lodge needs an accounting system that will provide accurate financial reports to Lodge management and financial data required by taxing authorities and for the Grand Lodge Financial Reporting System. If the Lodge is operating as a Corporation defined in Grand Lodge Statutes, Sections 12.070, 16.020 and 16.030, all duties referred to as Trustees' duties are now performed by the Corporation Board of Directors.

1-102. Accounting Period: In all but very small Lodges the accounting period should be monthly. Section 16.040 of the Statutes includes the statement: "*Each supervising or managing body shall submit a monthly written report to the Lodge showing the financial condition of the club, social parlor or other facility with a comparison to each budget item.*" The source of data for this report should be the Lodge accounting system.

1-103. Fiscal Year: The fiscal year for every Lodge begins April 1 and ends March 31 as stated in Sections 16.010 and 13.040(a) of the Statutes.

1-104. Chart of Accounts: Account numbers must be used to identify each receipt and disbursement for entry into the accounting system. As mandated by Sections 4.330 and 13.040 of the Statutes, the UNIFORM CHART OF ACCOUNTS set forth in the Appendix, Exhibit A, is to be used. Each Lodge must select from this listing the account numbers it will use.

1-105. Accounting Method: Each Lodge must adopt one of the following methods of accounting, EXCEPT, for recording membership dues and fees revenue. See paragraph *d* below.

- a. Accrual Method:** This method is recommended for all funds of all Lodges. The accrual method records income when a sale is made or when receipt becomes due. Expenses are recorded when the obligation is incurred. Inventory changes are given full consideration, fixed assets are capitalized, and indebtedness is recorded. This method most properly reflects results of operations each month.
- b. Modified Cash Method:** This hybrid method is adequate for Lodges with limited revenue, and financial management may be exercised without difficulty. Income is recorded when cash is received and expenses when paid during monthly accounting periods. Fixed assets are capitalized and indebtedness is recorded. At end of fiscal year a conversion to accrual method occurs by recording inventory changes, receivables, payables, accrued expenses, prepaid expenses and deferred income. This will properly reflect results of operations for the year, but not month-by-month.
- c. Cash Method:** This method is **not** recommended for any Lodge. Any Lodge desiring to use this method of accounting must obtain approval from its PGER State Sponsor.
- d. Dues and Fees Revenue:** Regardless of method used, each Elks Lodge should record member dues by the cash method unless received in a fiscal year prior to year to which they apply. Prepaid dues are recorded as deferred income. Fees are recorded as deferred income until the applicant has joined. The related accounting transactions are described in the Appendix, Exhibit A, for Account Nos. 21800 and 21801. (See also Section 1-111 of this manual)

1-106. Bookkeeping System: All Lodges must use a double-entry bookkeeping system.

a. Double-Entry System: This system has built-in checks and balances to assure accuracy and control necessary when many transactions are involved. Journals and a General Ledger are used. Transactions are first entered in a journal which is totaled at end of month. These totals are then posted to General Ledger accounts for income, expenses, assets (cash and property that a Lodge owns), liabilities (debts), and net worth (excess of assets over liabilities). Each account in the General Ledger has a left side for debits and a right side for credits and a column for balance. It is self-balancing because every transaction is recorded as a debit entry in one account and a credit entry in another. After monthly summary, totals from the journals are posted to ledger accounts, the total of amounts entered as debits must equal the total of amounts entered as credits. If not in balance an error has been made and it must be found and corrected. At end of month, after all postings have been made, income and expense statements and the balance sheet are prepared using amounts shown for each ledger account, for year to date as well as for the month just past. At end of year, income and expense accounts are closed; asset, liability and net worth (equity) accounts are kept open on a permanent basis.

1-107. General Journal: This is used to record journal entries (adjusting transactions) which must be posted to the General Ledger and which are not appropriate for recording in one of the other journals. The date of the adjustment, account to be debited and account to be credited, and an explanation of the adjustment are included. Unlike the other journals, where monthly totals are posted to the General Ledger, each entry in the General Journals is posted at the time to the General Ledger. The following are typical journal entries::

Error Correction: The necessary correcting adjustment when an error is found after posting to the General Ledger, such as an incorrect expense account number used in paying a bill.

Depreciation: Recording depreciation at end of year as described in Sec. 1-121.b of this manual. See Account Nos. 15200, 15400 and 15600, in Appendix, Exhibit A.

Unearned Dues: Debiting membership dues to deferred income Account No. 21800 and crediting income Account No. 30100 as described in the Appendix, Exhibit A.

Unearned Fees: Debiting deferred income Account No. 21801 and crediting income Account No. 30102, when a candidate becomes a member, as described in the Appendix, Exhibit A.

1-108. General Ledger: Controls all elements of the accounting system. These are divided into sections as follows:

Assets | Liabilities | Equity | Income | Expenses

The Income and Expenses sections are further departmentalized in a manner similar to:

Lodge | Bar | Food Services | Swimming Pool, etc. | Restricted Funds

Basic computerized accounting systems automatically provide most posting guidelines and carry the information forward to prepare needed financial statements.

The value of any accounting system is that all Income and all Expenses are posted to the intended accounts. This is acutely true where members' dues statements and payments of dues, fees, donations to Permanent and Temporary Restricted accounts are all in one payment.

1-109. Basic Rules: These basic rules should be understood by anyone operating a double-entry bookkeeping system:

ASSETS = LIABILITIES + EQUITY. All double-entry accounting is based on this equation.

Like any mathematical equation its elements may be transposed and the equation expressed as:

Assets – Liabilities = Equity.

Asset Accounts: Opening balances and normal balances are DEBITS
Increases are recorded as DEBIT entries
Decreases are recorded as CREDIT entries

Liability and Equity Accounts: Opening balances and normal balances are CREDITS
Increases are recorded as CREDIT entries
Decreases are recorded as DEBIT entries

Income Accounts: Normal balances are CREDITS
Increases are recorded as CREDIT entries
Decreases are recorded as DEBIT entries

Expense Accounts: Normal balances are DEBITS
Increases are recorded as DEBIT entries
Decreases are recorded as CREDIT entries

1-110. Reports: An accounting system would not be complete without procedures for preparation of financial progress reports. They are required by the Trustees or Board of Directors and other entity managers for use in comparing actual revenue and expenses to budgeted amounts. Reports are required by the supervising or managing body of the club, social parlor or other facility for further reporting to the Lodge as required by Sec. 16.040 of the Statutes. A balance sheet and income statements are needed for the Grand Lodge Financial Reporting System and the income tax returns. Monthly totals and/or balances for each account in the General Ledger provide the data for all such reports. Each Lodge should design reports necessary to meet its own particular needs.

a. Balance Sheet: It must be “in balance,” i.e. assets must equal liabilities plus equity. A balance sheet is necessary at end of year but may be prepared more frequently. A computerized operation normally produces a balance sheet monthly.

b. Income Statements: These list income by account, expenses by account, and increase (decrease) in equity (profit/loss). Income Statements should be prepared for the Lodge, bar, dining room and other entities such as golf course, swimming pool, etc. Income Statements are necessary at end of year and should be prepared monthly to permit timely action by management in making adjustments in operations as needed to prevent year-end losses. It is required to include, in the statements, the budgeted amount for each income and expense account. The need to budget by the same accounts that are used in the General Ledger is required.

1-111. Responsibility for Accounting System: Financial resources are critical to the success of a Lodge, and accounting for these resources is important. In the interest of good business practices and ensuring effectiveness of the system, responsibility for managing it should be assigned to one individual Lodge Officer. This should be the Treasurer or, in some Lodges, the Secretary. Each Lodge should make the determination. Centralized responsibility is necessary whether bookkeeping functions are performed by an officer or employee, on a Lodge-owned computer, or by a computer service firm. No Lodge should deviate from the requirement of Sec. 12.050 of the Statutes that the Secretary receives all monies due the Lodge and pays them over to the Treasurer; and of Sec. 12.060 that the Treasurer pays all bills against the Lodge.

1-112. Methods of Accounting: Accounting systems and services used are dependent upon the complexity of the business operation. No one method fits all needs.

a. Employ a Bookkeeper: The Lodge may wish to employ someone to perform the voluminous posting and report preparation tasks under the supervision of the responsible officer, either full-time or part-time.

b. Lodge-Owned Computer: This is a reasonable option for many Lodges. Investment in equipment and software is relatively small. There is potential for its use in other applications. There are several cautions, however. The Lodge must make sure that it will be able to obtain and retain qualified operators; action must be taken to prevent accidental loss of stored data that would be irreplaceable; and the Lodge should ensure that software obtained meets its needs and is not too elaborate.

c. Using a Computer Service Firm: This is a relatively inexpensive option. A survey of the local area will indicate which firms, if any, are available. It is suggested that any arrangement or contract for such service should include the following:

1. The input to be provided by Lodge. Usually, after initial start-up, a copy of each page of the Cash Receipts and Cash Disbursements Journals; a listing of General Journal entries; a form for adding or deleting account numbers; a form for adding or deleting employees; and a transmittal form.
2. The output to be provided which should include a printout of the balance sheet and income statements with budget comparison (if the Lodge has provided the budget input); the General Ledger reflecting opening balance, transactions for period and closing balance for each account; and a payroll register.
3. Elapsed time span between receipt of input and mailing reports.
4. Charges for service, often based on number of accounts and number of transactions, with certain minimums.

1-113. Separate Sets of Books: In some Lodges, such as those with a separate corporation (Sec. 16.030 of Statutes), it is required to keep more than one set of books. This should be kept to a minimum because of the extra work required and increased cost.

Consider that the accounting system described in this manual permits accounting for income, expenses and budgeting for more than one entity by use of the separate series of accounts in the 60000, 70000, 80000 and 90000 series. Departments (Class if using Quick Books) are a required division of Income and Expenses where close financial analysis is required for Profit and Loss review. A separate set of books will be required if the separate corporation has a different fiscal year from the Lodge year of March 31. Lodges with approved separate corporations classified as IRS Sec. 501(c)(2) and 501(c)(3) FORM 1120 CORPORATIONS AND LLCs ARE REQUIRED TO MAINTAIN SEPARATE SETS OF BOOKS.

1-114. Checking and Savings Accounts: Sec. 12.060 of the Statutes requires that the Treasurer be custodian of all accounts and the Treasurer of all committees. Most Lodges will have less problems, fewer errors and less accounting costs if the number of checking accounts is kept to a minimum. The average Lodge should rarely need more than one checking account if it uses the Uniform Chart of Accounts properly. An exception to this is Permanent and Temporary Restricted Funds must have a separate bank account. Many Lodges will have more than one savings account, some unrestricted and some restricted. Withdrawals from savings accounts should never be used to pay bills directly. When funds in a savings account are needed to pay a bill, the money should first be withdrawn from the savings account and deposited into the checking account.

1-115. Restricted Funds: Defined by Grand Lodge Statutes Sections 1.165 & 16.011.

- a. Funds or other property donated to, raised by, or allocated by a Lodge or related entity to be expended during a specified time or for a designated purpose, or both. Restricted Funds may be “temporary” if the restriction(s) will or could expire over a defined period of time, if the entity holding them is permitted to change or remove the restriction(s), or if the asset could be fully distributed for the defined purpose, or “permanent” if the purpose and time are designated or otherwise considered to be perpetual or the principal is to be held intact.

- b.* Use of restricted funds by a Lodge shall be governed by the following provisions:
 - 1.* A Lodge which holds Restricted Funds because of donor designation shall not expend, borrow from, or borrow against any such property for a purpose or during a period other than that designated without authorization of the donor, or pursuant to an order from a court of competent jurisdiction.
 - 2.* A Lodge which holds permanent Restricted Funds because of Lodge designation shall not expend, borrow from, or borrow against any such property for a purpose or during a period other than that designated without the written authorization of the State Sponsor, and two-third (2/3rds) approval by the Members present at a regular Lodge meeting following a minimum ten (10) day notice to all Members. Any such expenditure shall also be in compliance with all State and Federal Laws.
- c.* Lodges who receive unrestricted donor grants may choose to place these funds in the Restricted Funds Accounts for future approved lodge uses. It requires a vote of the lodge Members to establish these accounts and a similar vote be obtained to expend the funds or re-designate their purpose. Lodge-designated restricted funds can likewise be re-designated as General Funds with the approval of the Members.
- d.* The Chart of Accounts is designed to account for all Restricted Fund transactions. The 90000 series of accounts is designed to record all income and expenditures. These accounts will be closed at the end of the fiscal year by off-setting debits and credit to the appropriate 29000 Equity Accounts.

1-116. Petty Cash or Imprest Funds: With approval of the Lodge it is proper to establish such a fund as an advance to a member or employee of the Lodge to enable him to perform his duties. Such a fund is appropriate for a Club-type entity of Lodges located in governmental jurisdictions that require cash payment on delivery of certain alcoholic beverages. When the amounts involved are not small, or “petty,” the fund is normally known as an Imprest Fund. If a Lodge needs to establish such a fund, it is suggested that a resolution be passed on the floor of the Lodge that specifies the following:

- a.* Maximum authorized amount of the fund.
- b.* Person who will operate the fund and who will be held responsible for either the cash advanced or receipts for purchases made.
- c.* Kind of purchases authorized, as well as those prohibited, in specific terms. Purchase of fixed assets should never be permitted.
- d.* Authorization for Treasurer to issue a check to the operator so that he may implement the fund; the requirement that, as purchases are made and the cash depleted, the operator submit a voucher to the Treasurer with properly receipted bills attached and authorization for Treasurer to issue a check to the operator for total amount of bills attached to replenish the fund.
- e.* Requirement that the fund be closed out at end of fiscal year by turning in to Treasurer the remaining receipted bills and balance of cash on hand. In turn, authorize Treasurer to re-establish the fund on first day of new fiscal year.
- f.* The use of the Petty Cash Fund to circumvent the filing of required IRS 1099 Forms is prohibited.
- g.* The use of Cash from the gross proceeds of an event is a prohibited accounting method.

This procedure permits proper accounting for expenses involved and provides the required audit trail. A club supervising or managing body may have its own checking account for paying bills in accordance with Sec. 12.060(f). Pre-signed blank checks should never be authorized.

1-117. Fixed Assets and Depreciation: Fixed assets include land, buildings and furniture, fixtures and equipment. These assets are “long-lived,” i.e., they have a useful life beyond the year of purchase. They should be recorded on the books at cost. The recorded cost should include all normal and reasonable expenditures, such as freight, tax and installation, necessary to get the asset in place ready for use. Fixed assets donated to the Lodge should be recorded at fair market value, debiting the fixed asset account and crediting the Donations Account in the 30000 series of accounts.

a. Capitalizing Fixed Asset Purchases: Purchases should be capitalized by debiting the appropriate fixed asset account rather than debiting an expense account. Charging such purchases to expense would significantly distort operating costs for the period involved. Such purchases are not operating costs, but investments in assets that will be used over a period of time. Judgment must be used in determining what will be capitalized. Additions and alterations to buildings which increase their usefulness or extend their useful lives should be capitalized, but not normal repairs and maintenance. It is suggested that each Lodge should establish a minimum dollar value for items of furniture, fixtures and equipment to be capitalized.

b. Depreciation: Land is never depreciated. Other fixed assets wear out or depreciate through use and passage of time. They are commonly shown on the balance sheet as cost less accumulated depreciation. Accumulated depreciation is the share of each asset's cost that has been charged off to depreciation expense, or the amount the asset has been depreciated from time of purchase to balance sheet date. Recording depreciation is a process of allocating and charging, as expense, the cost of usefulness of an asset to accounting periods that benefit from the asset's use. There are various methods of depreciating assets. A Lodge should always seek the help of a qualified professional accountant when initially setting up a depreciation schedule and computing depreciation. Once established, the depreciation schedule must be kept current by adding purchases and deleting items sold, traded, lost or scrapped. At end of year total depreciation should be computed and charged as an expense of operations. This does not, of course, require the outlay of cash. Normal bookkeeping entries are a debit to depreciation expense (Account Nos. 39901, 49901, 59901, etc.) and a credit to allowance for depreciation (Account Nos. 15200, 15400 & 15600).

All Lodges must depreciate fixed assets in accordance with generally accepted accounting principles. Depreciation is mandatory — not optional.

c. Record of Fixed Assets: Each Lodge should maintain a permanent record of each fixed asset to include:

- Description
- Location
- Date of Purchase
- Cost
- Estimated Life
- Accumulated Depreciation
- Annual Depreciation and Method

In a computerized system all of this information would be loaded into the computer with changes made as they occur. A printout would be required as of March 31 for use in the annual audit process.

d. Annual Inventory: Such real and personal property is under the control of the Trustees or Board of Directors as specified in Sec. 12.070 of the Statutes. Under their supervision a physical count and verification should be made annually. Shortages should be investigated and the books adjusted accordingly.

1-118. Member Notes or Bonds: Occasionally a Lodge will borrow money from members and issue notes or bonds as security. The Lodge should maintain accurate and complete records of all such liabilities. An ongoing record should be kept to reflect the following:

- Note or bond holder's name and Social Security Number
- Amount of the note or bond
- Date due for redemption
- Rate of interest
- Date and amount of each interest payment

The Internal Revenue Service requires that each such interest payment of \$10 or more in a calendar year be reported on an information return, Form 1099-INT as stated in Sec. 5-108 of this manual.

1-119. Non-Routine Transactions:

a. Sales Tax: When a Lodge collects state or local sales tax on sales of food, beverages, etc., normally it is acting as trustee for the applicable taxing authority. The money collected is not “income” but is merely held in trust for later payment to the tax authorities. In some states the Lodge is permitted to retain a percentage of the tax as a commission for its expense of collecting and paying the tax. Proper bookkeeping entries are:

- Sales tax collected: Debit 10200; Credit 20900
- Payment of sales tax: Debit 20900; Credit 10200

b. Inventory Variance: The last prior inventory of liquor, food and supplies, etc. on hand would have been recorded on the books in an asset account 10801, 10802 or 10803. The dollar amount of the new inventory will be different. Journal entries should be made to adjust for this variance, as follows:

- New inventory less than prior inventory: Credit appropriate account in the 10800 series; debit an inventory variance account such as 41400 or 51400
- New inventory more than prior inventory: Debit appropriate account in the 10800 series; credit appropriate inventory variance account

c. Returned Checks: Occasionally a check that has been deposited will be returned by the bank as uncollectible. The returned check should be deducted (credited) to cash account originally recorded in and deducted (debited) from the income account originally charged. When a new check is received it is treated as a new receipt.

d. Prepaid Expenses: These are expenses such as insurance, real estate taxes, etc., that cover a period extending beyond the current accounting period. At time of payment Lodges using accrual method of accounting, debit the appropriate account in the 10900 series then make monthly (or quarterly) journal entries crediting this account and debiting the appropriate expense account. Lodges using the modified cash method of accounting should (1) at time bill is paid debit current year’s portion to proper expense account; (2) debit portion that applies to following year to appropriate account in the 10900 series; and (3) in April of new year credit portion that applies to new year to appropriate 10900 account and debit appropriate expense account.

1-120. Record of Investments: Sec. 12.070 of the Statutes assigns to the Trustees or Board of Directors responsibility for keeping this record. The investments represent assets of the Lodge and any action taken by the Trustees or Board of Directors must be coordinated with the Treasurer to ensure proper entry in the books of account. It is suggested that the Trustees or Board of Directors and the Treasurer periodically reconcile their records. It is not the intent of this manual to direct the methods of investing excess funds. Strong oversight controls must be established to anticipate market risks and ensure that the investments are truly in the best interest of the Lodge. It is mandatory that Restricted Funds are maintained in separate identifiable accounts to ensure that each fund can be accessed when necessary for distribution without compromising the entire investment portfolio. Each portfolio should be reviewed annually to ensure that signature control is updated with the current elected officers.

1-121. Marketable Securities (Not Including Insurance): Under notes to “Financial Statements, Independent Accountants are to set forth the components of Marketable Securities, and their actual cost and market value at the end of the year; and a comparison to the previous year. The accountant is to reflect the Market Value in the Annual Financial Statement (issued as of March 31). The financial statements should reflect unrealized gains and (losses).

INTERNAL CONTROLS

2-101. General: Each Lodge needs a system of internal controls to protect assets from waste, fraud and theft and to ensure accurate and reliable accounting data. Some controls are mandated by Laws of the Order and By-Laws of the Lodge. Additional controls needed are determined by the volume of business, complexity of Lodge organization and number of employees available. It is not feasible to provide one simple set of internal controls for all Lodges. Each Lodge should design its own system. The cost of controls should always be justified by benefits to be derived. The number of employees between which responsibilities can be divided will generally be a factor.

The following controls should always be included:

- a. Procedures for using vouchers to authorize payment of bills against the Lodge, to include:
 1. Voucher form to be used, as designed by the Lodge.
 2. Who prepares the voucher and attaches it to the bill (normally the Secretary).
 3. Who approves the voucher, invoice or bill to verify receipt of material; to verify price billed against price quoted, to indicate committee approval, etc. Normally, the Secretary will prepare the voucher which is then approved by the Secretary and Exalted Ruler. Any Lodge may require that all vouchers / bills be reviewed and approved by the Trustees or Board of Directors to ensure compliance with the budget. After all prior approvals are obtained, the Secretary reads the bills at a regular session of the Lodge under the order of business — “Bills Against the Lodge.” After Lodge approval, the Secretary will present the bills to the Treasurer for payment (Reference Sec. 12.060 of the Statutes).
- b. Procedures for authorizing payment of employees. A time clock, with individual time cards, is preferred for a large number of employees. Otherwise a time sheet or book with the supervisor’s signature of approval for each pay period should be used. Treasurer should ensure that pay rates for new hires and any pay changes are properly authorized, preferably by actual record in minutes of meetings of the supervising or managing body of the club or other entity.
- c. Procedures for receipt of merchandise and supplies. Quality, weight and count should be checked. Delivery men should not be permitted to place merchandise in the storeroom without careful check. It is appropriate to limit the number of individuals who are authorized to sign for deliveries.
- d. Treasurer, Bar Manager, Food Manager, should never be involved with inventory or receiving.
- e. A receipt book for the Lodge may be kept in the club room so that members may pay dues during hours Lodge office is closed. The money and name of member paying dues should be given to Secretary promptly. Members should be encouraged to pay dues by check.
- f. Person originally receipting for cash should not be involved in depositing or recording receipts.
- g. Secretary’s receipts should be reconciled with Treasurer’s receipts each month. Delay increases difficulty in identifying discrepancies.
- h. Bank statements should be obtained from the depository monthly. Statements for checking accounts should bear a closing date of last day of month wherever possible. All bank statements must be reconciled monthly and necessary corrections entered.
- i. Bank deposits should be made promptly, daily if possible. Deposits are to be made by the Treasurer or another person as long as that person is covered by the Lodge insurance bond.
- j. Cash kept in Lodge overnight should be stored in safes with combination locks that meet requirements of the casualty insurer.

- k. Lodge assets should be covered by adequate casualty insurance, and personnel who handle cash should be bonded. Sections 12.050 and 12.060 of the Statutes specify the minimum bond required for the Secretary and the Treasurer. Lodge should determine amount of bond to be carried for each person involved.

2-102. Controls Applicable to Club Operations: Consideration should be given to the following when establishing the internal controls for the bar, food service, golf course, pool and similar club-type operations. See Appendix, Exhibit F.

- a. Good business practice requires that management pay close attention to the COST OF SALES RATIO for the bar and food service. When ratios exceed the guidelines given below, management should review existing practices on over-pouring, spillage, waste, pricing policies, purchasing functions, inventory control, etc. Improvements should be implemented and selling prices should be increased where necessary. It is just good common sense that the club should make sufficient gross profit to support itself.

1. **COST OF GOODS SOLD SHOULD NOT EXCEED 35% OF SALES.** Ratio determined by the formula:
Cost of sales divided by sales = ratio.

2. **EMPLOYEE EXPENSES SHOULD NOT EXCEED 35% OF SALES.** Ratio determined by the formula:
Total salaries and wages + employee meals + payroll taxes and benefits divided by sales = ratio.

3. **ENTERTAINMENT COST SHOULD NOT EXCEED 6% OF SALES.** Ratio determined by the formula:
Total entertainment cost of bar and/or dining area (depending upon whether one or both receive benefit) divided by sales = ratio.

It is emphasized that these ratios are maximums. Individual Lodges, depending upon volume of sales and other circumstances, may wish to establish their own goals at less than these maximums.

- b. Use recording cash registers with sufficient flexibility to record all sales by product and other miscellaneous cash receipts. A numbered continuous tape should be locked within each cash register while it is in use.
- c. It is suggested that cash registers be equipped with additional tape to permit giving the customer a cash register receipt, together with his change, immediately upon being served.
- d. Food Service sales checks should be pre-numbered in sequential order and accounted for daily. Missing sales checks should be investigated by the supervisor.
- e. Separate cash drawers should be provided for each individual handling cash receipts.
- f. Access to the tape locked in the cash register should be limited to an individual, other than the bartender or cashier, who should count the cash, balance against tape totals, and prepare the daily summary of receipts.
- g. There should be an established policy for action to be taken on cash shortages / overages.
- h. Persons responsible for inventory should not be involved with sales.
- i. Inventory of merchandise for resale should be taken monthly or quarterly and, as a minimum, at end of year, March 31.
- j. A member of the Auditing & Accounting Committee, an Officer, or member of the Club Management Committee, should supervise taking the inventory and spot check pricing and extending.

DISTRIBUTING OVERHEAD COSTS

3-101. Purpose: Lodges need to distribute overhead costs to each Department (Class if using Quick Books) in order to obtain a truer and more meaningful cost of operation for each. Knowledge of such total cost of operations should have an impact on management decisions. The practice of charging only direct costs and operating expenses to such entities as the club, and charging the overhead or indirect costs as Lodge expenses, is misleading and at times works to the detriment of Lodge interests. For example, in some governmental jurisdictions, bingo profits must be spent for specific purposes, such as charity. Overhead costs should be considered as expenses when determining profit.

3-102. Overhead Costs: These are costs incurred for the benefit of all departments and activities and cannot be assigned directly to any one department. These costs should be allocated to each department by percentage of use or other standard method. Overhead costs normally include, but are not limited to, the following:

- Accounting and Legal Expenses
- Depreciation
- Insurance
- Interest on Mortgage and Bonds
- Janitorial Expenses
- Pay of Secretary and Treasurer
- Repair and Maintenance of Building and Grounds
- Utilities

3-103. Prorating Overhead Costs: Lodges are encouraged to develop a method of assigning to each Department (Class if using Quick Books) a proportionate share of the total overhead costs. The method used may be based on building space and hours used, as a percentage of total; or on business revenue of each, as a percentage of total. The method used should be reasonable and understandable to members. The prorated share may be determined in advance and charged to each entity as “Intra-Lodge Rent.” Such rent would be included in the budget as income for the Lodge and as expense for the particular entities or major activities.

THE BUDGET PROCESS

4-101. Definition: The budget process is that phase of accounting dealing with planning the activities of a Lodge in financial terms and comparing actual progress with the plan. It is a management tool that is most effective when actual revenue and expenses are compared to the budgeted amounts periodically, during the year, and management decisions are made to adjust operations as needed. This enables the Lodge to manage its operations to attain a profit sufficient to finance the Lodge's fraternal and charitable objectives, to provide for growth and prevent year-end losses.

4-102. Statutory Requirements: A budget is required for every entity of the Lodge (including Restricted Fund Activities) as expressed in Sections 12.070 (Lodge), 16.020 (separate corporation) and 16.30 (Club and other facilities). These Statutes also require that each entity report to the Lodge monthly their actual progress as compared to the budget. Budgets must be presented to the Lodge for approval no later than the final regular meeting of the Lodge in April.

4-103. Preparation of the Budget: The initial action should be the Exalted Ruler-elect requesting from each of his committee chairmen their best estimate of fund-raising income and a detailed estimate of their expenses. The Secretary, Treasurer and Trustees or Board of Directors if incorporated should commence early to assemble estimates of those budget line items that do not require prior year actual data, such as dues and fees income, mortgage principal, interest expense, insurance, etc. With an effective accounting system, where postings are kept current, the General Ledger should provide actual income and expense data for the prior year within a short time after March 31. The Trustees or Board of Directors and other entity managers convene a budget meeting or series of meetings and develop the best available estimates, giving consideration to the Exalted Ruler's plans, the committee estimates and prior year experience. The following should be considered:

1. Prepare worksheets in advance. Computerized accounting can provide budget formats that eliminate many manual efforts.
2. Budgets must use the same Account Numbers that are used to record income and expenses.
3. Prepare income section first on the theory that you should not spend more than you expect to receive. Be realistic and conservative.
4. When preparing the expense sections, estimate fixed and semi-fixed expenses first, i.e., those over which the Lodge has little or no control.
5. Prepare separate schedules where more detail is desired, such as a detailed list of charity donations to be made.
6. When budgeting for activities which generate income, such as bingo or fund-raising events, always budget gross receipts and expenses, never the net income.
7. Do not overlook capital items which are not "expenses," such as purchase of equipment, mortgage principal, bond redemption, etc.
8. Budget may include an amount for contingent purposes to cover unforeseen emergencies.
9. It is never good business practice to prepare a deficit budget. Keep expenses within the limits of anticipated income.
10. It is advisable that the Trustees or Board of Directors coordinate the various budgets to prevent overlapping and duplication.

4-104. Operating Within the Budget: Sec. 12.070 of the Statutes clearly states that after the budget has been adopted, all expenditures must be kept within the limits of appropriations made and specifies action to be taken when proposals are made for an expenditure in excess of the budget or an expenditure requiring use of any amount budgeted for contingencies. The following guides should be used in interpreting these strict statutory requirements:

1. Line items budgeted for operating expenses are estimates. It is to be expected that actual expenditures will exceed or fall short of the estimates on specific items. When expenses exceed approved budgets, G/L Statutes Sec. 12.070 must be followed.
2. Binding contracts and major expenditures of an unusual nature, such as purchase of major equipment or major repairs, even if included in the budget, should be submitted to the Lodge for approval after receipt of proposals and estimates from the vendor. Trustees or Board of Directors should make appropriate recommendations.
3. The supervising or managing body of club or other entities should be authorized to make purchases in support of day-to-day operations but should not enter binding contracts extending over a period of time, or purchase major items of equipment, without prior approval of the Lodge.
4. Approval of expenditures which exceed the total amount budgeted must specify the source of funds. If savings are to be used the Trustees or Board of Directors should so indicate in their recommendation.
5. Amendment of a budget requires Lodge approval but does not require re-submission of a new budget.

4-105. Periodic Budget Reviews: is a most important phase of the budget process. The Trustees, or Board of Directors, the club supervising or managing body, and other entity managers should give this high priority on the agenda of their meetings, monthly or quarterly. Regular reports from the accounting system providing actual revenue and expenses to date are required. Comparing this actual progress to the budget will point up variances of material amounts that require action or further investigation. It is important that management decisions be made at this time to adjust for shortfalls in income or excess expenses, such as implementing conservation measures, eliminating non-productive hours of club operation, reducing labor costs, raising selling prices, etc., in order to prevent a loss at the end of the year.

4-106. Financial Operations: It is of extreme importance that the members recognize each entity of the Lodge is to be financially self-sufficient adhering to its own budget, understanding that the funds from the Lodge are NOT to be used to maintain, or support, any other entity of the Lodge, such as the Club (Bar and Food Service), Swimming Pool, Bingo, Tear Tickets, Corporation, etc.

The only exception to the above will pertain to the institution of an entity wherein a cash advance is required; however, in this case the funds transferred from the Lodge will only be considered as a “LOAN” and are to be returned to the Lodge as soon as possible.

4-107. Capital Budget: All Lodges should develop a long-term replacement and improvements budget. Funding should come from retained profits and Lodge-designated Temporary Restricted Funds. Special savings accounts or investment accounts should be maintained to fund these projects, and by-law provisions should be enacted to preserve the intent of the funds.

TAXES AND TAX RETURNS

5-101. General: This Chapter is not intended to provide complete and comprehensive advice on payment of Federal, State and local taxes or filing of all tax returns. Rather, it is intended to provide a guide with suggestions and ideas to help Lodges ensure compliance with the tax laws. Lodges must be careful to maintain a reputation of being a law-abiding organization and not act to jeopardize our income tax exemption.

5-102. Expert Advice: The most effective way for a Lodge to stay out of trouble with taxing authorities is to seek advice from a tax professional. Do this when you have questions or are in doubt. It is recommended that the Lodge periodically ask a professional to review their practices for compliance with tax laws and regulations. It is suggested that the Secretary and Treasurer keep up-to-date in this area, maintain a file of pertinent publications, and be the point of contact for questions that arise.

5-103. Obtaining Publications: Internal Revenue Service publications and forms may be obtained from the IRS Forms Distribution Center for your area. Also, they may be obtained on the Internet by accessing irs.gov/forms. State and local publications should be obtained from the State income tax or sales tax office website and the local alcoholic beverage websites, as well as your local gaming website.

5-104. Payroll Taxes: Every Lodge that has employees must use IRS Publication #15, Circular E, “Employer’s Tax Guide,” which contains tax withholding tables and instructions for withholding, paying taxes, rendering returns and record keeping. Additional pertinent instructions are contained in IRS Publication #937, “Business Reporting, Employment Taxes, and Information Returns.” Taxes must be paid and returns filed within specified due dates to avoid serious penalties and interest. Following are errors most frequently noted by the accountant:

1. Failure to withhold and pay income, social security and medicare taxes for part-time employees, “casual labor,” “outside labor,” “extra help,” etc. Regardless of what the Lodge may call this expense the taxes must be paid whether the employee works full- or part-time.
2. Failure to withhold and pay such taxes for the Secretary and Treasurer who are officers receiving compensation and failure to recognize that these positions are subject to Federal and State minimum wage and overtime rules and must be issued W-2’s..
3. Failure to require employees to report tips of \$20 or more in a month and failure to withhold and pay taxes on tips.
4. Failure to pay Federal Unemployment Tax (FUTA) and State unemployment taxes on a timely basis.
5. Failure to recognize that volunteers receiving more than \$30.00 a month in Tips or Gratuities are employees under the U.S. Fair Labor Standards Act.

5-105. Federal Income Tax Returns: It is advisable to have returns prepared by experienced professionals. All annual 990 Forms must be filed on-line at elks.org by August 1st of each year. Following is a brief of filing requirements:

- a. **Filing Required:** A Lodge that normally has annual gross receipts of \$50,000 or less is required to file form 990N and may be required to file Form 990T. Gross receipts are the total amount received from all sources during the year without subtracting any costs or expenses.

b. Form 990 or 990EZ: All other Lodges are required to file one of these returns each year. Form 990EZ, the short form, may be used when gross receipts are less than \$200,000 and total assets are less than \$500,000 at end of year. If a return is filed late the Lodge could be assessed a penalty of \$20 a day, not to exceed the lesser of \$10,000 or 5% of the gross receipts. There are provisions for requesting an extension of time to file using IRS Form 8868.

The following frequently-noted errors should be given special attention on Tax Form 990:

1. The accountants are failing to enter the proper information on Page 1 line Hc, our Group Exemption number 1156. Lines 3 & 4 should list the number of members of your Governing Body or Board of Directors, not the Total Membership. Line 5 should indicate the number of Members working as volunteers on charitable efforts, Page 6 line 1a and 1b should show the number of the Board of Directors — same number as on page 1 lines 3 & 4. Page 7 and 8 should list all Officers and key personnel and any compensation they received during the Accounting year.
2. When listing Lodge officers in the return include all officers, whether they receive compensation or not. If the Lodge is incorporated under State Law and in accordance with G/L Statutes, Sec. 16.020 and 16.030, also check the column for the Corporate Board Members on the required 990 Forms.
3. On front of Form 990/990EZ indicate that the Lodge is exempt under 501(c)(8); indicate that it is a separate return filed by a group affiliate; and enter Group Exemption No. 1156.

c. Form 990T: This return must be filed by each Lodge that has gross income from an unrelated trade or business. An unrelated trade or business is any trade or business that is regularly carried on, and that is not substantially related to the exempt purposes of the Lodge, other than the need for funds. Gross income is gross receipts less cost of goods sold and/or operations. Unrelated business income must be included in Form 990/990EZ. Lodges should obtain IRS Publication #598, “Tax on Unrelated Business Income of Exempt Organizations” as an aid in understanding what is, and what is not, unrelated business income. Typical examples of such income are rental of debt-financed property (property subject to a mortgage), and regularly operating a commercial parking lot. Although catering events that are open to other than Elks and guests has previously involved unrelated business income for many Lodges, compliance with the provisions of Section 14.130 of the Statutes will eliminate most of this. It is a very dangerous practice to list 100% of Club Revenue as Unrelated Business Income. This indicates that your doors are open to the Public.

5-106. Employer Identification Number: Each Lodge must have an EIN. This is a nine digit number arranged as follows: 00-0000000, see IRS Publication #15, Circular E. The correct number must be used on all returns and other documents, and use only one number for the Lodge. A separate corporation must have a separate EIN and would use that number on their returns.

5-107. Exemption from Federal Income Tax: Grand Lodge has been issued a group exemption number 1156 for all Lodges under Section 501(c)(8) of the Internal Revenue Code. The basis for this exemption is that our exempt purposes are charitable and fraternal as expressed in the Preamble to our Constitution and that our Order provides tax-qualifying benefits to Lodge members. Lodges should always act to preserve this important exemption. Any question raised by an IRS agent concerning the Grand Lodge group exemption must be referred to Grand Lodge officials for response, and therefore must be promptly referred to the Sponsoring Past Grand Exalted Ruler.

Grand Lodge is required to furnish the IRS each year with a list of additions to, and deletions from, the list of Lodges included in the exemption. Therefore, Grand Lodge must have accurate information on correct EIN numbers. This is updated each year from the Directory Information Forms that Lodge Secretaries must furnish to Grand Lodge. **The Secretary must ensure that the EIN for the Lodge is entered correctly each year.**

5-108. Information Returns: Most Lodges are required to file one or more of these returns each calendar year. Instructions are contained in IRS Publication, “General Instructions for Certain Information Returns.” Quite frequently during an accountant’s examination of a Lodge he will refer to errors of omission in this regard. Some returns most frequently involved are:

1. Payment of interest of \$10 or more to holders of member bonds or notes—IRS Form 1099-INT.
2. Payment of \$600 or more for nonemployee compensation, such as accountants, attorneys, bands, etc. — IRS Form 1099-MISC.
3. Payment of \$600 or more in winnings from raffles or drawings — IRS Form W-2G.
4. Payment of \$1,200 or more in winnings from bingo, slot machines and other legal games of chance — IRS Form W-2G.

5-109. State and Local Income Tax Returns: Each Lodge should consult its accountant, tax attorney or appropriate local officials to determine what returns are required. In some states, if the Lodge pays income tax on unrelated business income, it is also required to pay state income tax and provide a copy of the IRS Form 990T.

5-110. State and Local Sales Taxes: It is the responsibility of the Lodge to know and comply with the requirements for collection and payment of such taxes and rendering required returns. Generally, a Lodge can obtain a copy of the law and regulations by contacting the appropriate taxing authority.

FUND-RAISING COMMITTEES

6-101. Types of Committees: This advice and guidance applies to committees that are involved in fund-raising, excluding the House Committee or other supervising or managing body. Included are standing committees that raise funds for charitable purposes and special committees appointed for special purposes or one-time events such as a Charity Ball. Ensure that all Charitable Activities record their financial data using the 90000 Series of Accounts.

6-102. Planning: The need for advance planning for any event cannot be over-emphasized. It is important that no event be scheduled unless there is reasonable assurance that a profit will be realized. A plan must be presented to the Lodge for approval and support in advance. If the event is not included in the budget and an advance (loan) is required for incidental cash expenses, this should be approved by the Lodge.

6-103. Catered Events: A catered event for a member and their guests likewise needs advance planning. These may be arranged by the supervising or managing body of the club or by a special committee appointed by the Exalted Ruler. The event should be preceded by firm arrangements and agreement with the sponsoring member as to nature of event, menu, price to be charged including sales tax, timing and method of payment, and any minimum number of attendees to be paid for. It is important that no payment for food, beverages, etc. be accepted from anyone other than the sponsoring member. (See Sec. 14.130 of the Statutes)

6-104. Accounting for Income and Expenses: Policies and procedures should be established requiring that each committee account for all gross receipts and expenses in accord with the following:

- a.* Lodge Treasurer is required to serve as Treasurer of all committees as outlined in Sec. 12.060 of the Statutes.
- b.* Gross receipts should be turned in to the Secretary to be accounted for on Lodge books as required by Sec. 12.050 of the Statutes.
- c.* Sale of admission or raffle tickets should be controlled by pre-numbering and accounting for any missing tickets.
- d.* Expenses should be supported by invoices, bills or cash register receipts. Cash payments should be kept to a minimum and should never be paid out of the cash receipts. A caterer, musicians, etc., should always be paid by the Lodge Treasurer by check.
- e.* When using food, beverages, paper and plastic supplies previously purchased by the club, the necessary accounting adjustments should be made to reflect this as a committee expense and not a club expense. (See Sec. 1-111 of this manual)
- f.* The committee chairman should submit a final report of Income and Expenses as well as special circumstances that caused planning changes during the event.
- g.* Sales Tax is of particular problem in some states. Make sure that your event tickets properly identify the taxable portion of the ticket sale or you may have to pay Sales Tax on the whole amount collected.

6-105. Final Action by Committee Chairman: The committee chairman must report results of the event to the Lodge at a regular meeting. It is suggested that he prepare a brief narrative after-action report for the benefit of future committee chairmen holding a similar event.

RECORDS RETENTION

7-101. Who Should Retain Records: Based on Sec. 16.110 of the Statutes, an important responsibility of the Secretary is to retain files and records as long as they may be needed. The Internal Revenue Service specifies minimum retention periods for certain records.

7-102. Payroll Records: IRS Publication #15, Circular E, specifies that payroll records must be retained for four (4) years and lists the specific records included.

7-103. Income Tax Returns and Supporting Records: As stated in IRS Publication #583, “Starting a Business and Keeping Records,” such records must be kept as long as they may be needed for administration of any provision of the Internal Revenue Code. Keep records that support entries on these returns until the statute of limitations runs out, as a minimum. This is usually three (3) years after the return is due or filed. Such records should include a copy of each return. As stated in the IRS Instructions for Forms 990 and 990EZ, a copy of each of these returns must be kept for three (3) years for public inspection upon request. Caution: Some states require a longer records retention period.

7-104. Permanent Records: Records of deeds, mortgages, member bonds, purchases of fixed assets and depreciation records should be kept indefinitely, the same as for membership records.

INTERNAL AUDITING

8-101. Purpose: A Lodge may have a complete accounting system, good procedures for accounting reports and excellent internal controls. But, the system would not necessarily work well unless someone checks records prepared and maintained in each area or entity to make sure that established procedures and policies are adhered to. This is the job for internal auditors.

8-102. Auditing & Accounting Committee Reviews: G/L Statutes Sec. 13.040 mandates the duties and responsibilities to the Lodge Auditing & Accounting Committee. Subsection (i) sets forth the requirement for three reviews yearly during the months of July, October and January. If the Auditing & Accounting Committee is conscientious and carries out its duties responsibly, the Lodge will have much greater assurance that it is complying with the Statutes and tax laws; that accounting data is reliable and that the budget process is being used properly to manage the financial affairs of the Lodge. Subsection provides for who can serve on the Committee as follows: No Lodge Secretary, Treasurer, Trustee, Director, or any member of the Supervising or Managing Body of the Club, Social Parlor or other facility established in connection with the Lodge shall serve as a member of the Auditing & Accounting Committee. The Audit Committee does not report to the Lodge Trustees or Board of Directors.

8-103. Guide for Review by Auditing & Accounting Committee: This Guide, included in the Appendix as Exhibit B, has been prepared to aid the Committee in conducting its reviews. It may be reproduced by photocopying as needed. In conducting a review portions of the Guide may be assigned to each member of the team. In larger Lodges it may be advisable to assign a team member to each entity, such as the Lodge, Club, Golf Course, etc.

8-104. Report to Lodge: The Auditing & Accounting Committee must report completion of their reviews to the Lodge at a regular session. All discrepancies, weaknesses and areas needing improvement, with the Committee's recommendations, should be discussed with the Exalted Ruler and persons responsible. It is clearly the duty of the Exalted Ruler, as chief executive officer of his Lodge, with the assistance of the Committee, to ensure that all recommendations are considered and implemented when approved.

8-105. District Deputy's Internal Audit: The District Deputy Grand Exalted Ruler, with the assistance of an Auditor, conducts this internal audit upon the occasion of his visit to the Lodge. This, in effect, is an internal audit conducted by corporate headquarters within its branch offices. The Exalted Ruler is expected to act affirmatively on recommendations made by the District Deputy.

Note: It is suggested that it would be very helpful if the Lodge's Auditing & Accounting Committee could be present when the District Deputy conducts his audit.

THE FINANCIAL REPORTING SYSTEM

9-101. General: Each member of a Lodge is entitled to the assurance provided by a financial report that Lodge assets are being protected against waste, fraud and theft and are being used only for the purposes intended. Section 13.040 of the Statutes places responsibility on the Lodge Auditing & Accounting Committee to ensure that a qualified individual is performing the daily accounting activities.

9-102. Submitting the monthly Financial Data: The Lodge financial information must include all financial data for every department (classes, entities, corporations) using the Uniform Chart of Account classifications as detailed in Exhibit A. The e-mail submittal to the Financial Reporting System must be completed by the 3rd Friday of each month starting in April 2020.

9-103. Timely filing of the monthly Financial Data: The financial data is to be emailed to the FRS at least every 30 days. If unable to meet the 30-day deadline, the Auditing & Accounting Committee Chairman should request an extension of time from the Area Member of the Grand Lodge Auditing & Accounting Committee explaining the reasons for the delay and the date on which the report will be filed. The Area Member of the Grand Lodge Auditing & Accounting Committee can only approve a one-month extension. Subsequent extensions can only be approved by the PGER Area Sponsor(s) under extreme and unique circumstances of a Lodge. Delays in gathering the data by the Lodge are not considered extreme or unique. Failure to email the report by the extended deadline can result in fines of up to \$100.00 a month for up to 5 months for a total fine of \$500.00 with State Sponsor approval.

9-104. Evaluation Report: The Area Member of the Grand Lodge Auditing & Accounting Committee will perform a review of the Lodge financial data at least once every 4-months. The Area Committeeman will file a written report at least annually, or when concerns or discrepancies warrant additional reporting. The Area Member written reports will be posted to the Grand Lodge web page with his or her recommendations, suggestions and comments, for the Exalted Ruler, the Secretary, the District Deputy, Special District Deputy and the Past Grand Exalted Ruler Area Sponsor(s). The evaluations will be available online under Grand Lodge reports, which will be available after receipt of Email notice by the GL Secretary's office. This report is to be read on the floor at a regular session of the Lodge and will be reviewed with the officers during the visit of the District Deputy. It is extremely important that the Board of Directors or Trustees receive a copy.

9-105. Separate Corporation: A separate corporation is an entity of the Lodge which owes its existence to that authorization granted in Section 16.030 of the Statutes for the Lodge to form a separate corporation. The FRS is to be a combined report and should include all separate corporations. The income and expenses of the corporation should be included in the Financial Statements and the Combined Balance Sheet should include its assets, liabilities and equity. The Board of the separate corporation must allow the Lodge Audit Committee access to all financial data, present its Budget to the Lodge for approval and provide a copy of the required IRS and State tax returns for submission to the Area Member of the Grand Lodge Auditing & Accounting Committee. Submission dates are to be the same as those required by the Lodge.

9-106. Approved IRS Status: 501(c)(2) Corporations pose special obligations upon the Corporate Board of Directors. These corporations are legally defined as a (Holding Company). This means the following:

1. They hold title to property owned by the parent corporation (Lodge).
2. They can collect rents and pay bills identifiable to the held property.
3. They cannot carry on any other trade or business.
4. They cannot have financial transactions or profit which is considered Unrelated Business Income.
5. They can retain sufficient rental profits to cover anticipated expenses.
— Excess profits must be distributed to the parent corporation at least annually.

IRS EXAMINATIONS OF BPOE LODGES

10-101. IRS EXAMINATION OF LODGE: A notice to a Lodge of an IRS examination begins with a letter from an IRS examiner to set up an appointment to review Lodge records. The examination normally will be for a specific Lodge tax year or years.

The initial contact by the IRS will be followed by a written “Information Document Request” specifying what records and other information the Lodge should have available for the examination. This is an extensive listing of documents and records which the Lodge should begin assembling for the IRS examiner. IRS Form 4564 will request very specific information and may contain the following information:

Important: Copies of requested documents, prepared in advance and transmitted on a disk or thumb drive, will facilitate the examination, and will be retained by the examining agent at the completion of the examination. The requested information pertains to the report and dates given in the Subject section in the heading of this document. This information will be used to verify the accuracy of the report, and to determine and ensure that the organizational requirements are still met.

WHAT TO EXPECT/HOW TO PREPARE/WHAT WILL BE NEEDED IN ADVANCE

Engage your Accountant who prepared your reports and tax returns to represent you.

Initial Discussion: between Lodge representative and Internal Revenue Agent: TAXPAYER RIGHTS.

Initial Interview: please be prepared to answer questions as they relate to the activities of your Lodge, such as membership, employment record keeping and reporting, accounting/bookkeeping practices, accounting software in use, internal controls, contracts/leases, and sources of revenue including gaming activity.

Tour: of the Lodge facilities to include all land, buildings and physical assets of material/substantial value.

A room: (with desk and electrical outlets) in which the examining agent can conduct the exam. Your representative may request that the agent conduct the exam at the representative’s office.

Organizational and Operation Requirements

Note: Requested documents will be examined to determine if the club meets the following:

The club must be properly organized as a Fraternal Beneficiary Society described in Internal Revenue Code 501(c)(8) in that it:

- a. Operates under the “Lodge system” and has an established system for the payments to its members or their dependents of life, sick, or other benefits.
- b. Can demonstrate that its members have a common fraternal bond and are bound together by the same or similar calling, avocation, profession, or be working in unison to accomplish some worthy objective or common cause.
- c. Its governing documents must not contain language which provides for discrimination on the basis of race, color, or religion (aka: the written discrimination test)
- d. It accounts for all investments and/or non-member activity subject to unrelated business income per IRS 511-514.
- e. It retains all proof-of-receipt from investment and non-members’ use of its facilities.
- f. It has filed all required information and tax returns.

Requested Documents

- 1.* Your Governing Instruments (articles of incorporation, amendments, bylaws, etc).
- 2.* Your Internal Revenue Service determination letter exempting you from Federal Income Tax.
- 3.* Any other notice, ruling, determination, or examination letters or reports you have received from IRS.
- 4.* Charter from your parent Lodge verifying your subordinate status.
- 5.* Minute Books (to include Lodge Meetings, Trustees, Board of Directors and Management Body) covering the years immediately prior to, including, and subsequent to the year under examination.
- 6.* In order to verify the correctness of income, gross receipts, deductions and credits and to reconcile the return to your books and records please provide all books and records of your organization's assets, liabilities, receipts & disbursements for the period(s) examined, to include:
 - a.* Chart of Accounts
 - b.* General Ledger
 - c.* Working Trial Balance
 - d.* Trial Balance
 - e.* Adjusted Trial Balance
 - f.* Annual Financial Statements
 - g.* Bank Statements of all accounts for the year(s) examined
 - h.* Reconciling documents which indicate agreement between bank statements and your books of record
 - i.* Cash receipts and cash disbursements journal (check register)
 - j.* Accounts payable and accounts receivable journals plus subsidiary ledgers
 - k.* Cancelled checks, paid invoices/receipts (to be selected on-site)
- 7.* Payroll Journal/Reports, employee earnings records, employee tax returns — from 940, 941's, and W2's.
- 8.* Copies of contracts you are engaged in — employment, hall rent, loans, leases, mortgages/ notes payable, agreements, etc.
- 9.* Copies of your organization's membership directory, pamphlets, brochures, newsletters, publications, and record transactions with non-members.
- 10.* Reservation/Banquet Book, party function sheet, reservation sheets for club functions, member billing.
- 11.* Record keeping logs and sales receipts and other supporting documents which you use to identify and record transactions with non-members.
- 12.* Reciprocal arrangements with other clubs, applicable record keeping logs and sales receipts.
- 13.* Copy of all license(s) for gaming activity as may be permitted in your state or commonwealth for the period examined and current.
- 14.* Copy of all liquor license(s) as may be permitted in your state or commonwealth for the period examined and current.
- 15.* Copies of reports to/from State and other Federal agencies covering the years immediately prior to, including and subsequent to the year under examination.

The above paragraphs were actually included in a Document Request issued by the Internal Revenue Service. The best defense a Lodge can have is a strong offense in record keeping and a complete understanding that an IRS examination is a serious undertaking. The IRS examiner usually will come to the Lodge premises to conduct the examination. The Lodge should have a qualified representative present, such as the Certified Public Accountant or Enrolled Agent who should have a Lodge Power of Attorney and be the designated spokesman for the Lodge. At all times, the Lodge representatives should be cooperative and answer any questions as accurately as possible. Other Lodge personnel should not participate unless specifically requested by the examiner and should speak only through the designated representative.

At the conclusion of the examination, the IRS examiner will prepare and send to the Lodge, a statement of his findings and any assessments of additional taxes. The Lodge will be allowed to comment upon and contest any disputed findings before the examiner issues a final report. If the Lodge does not agree with the final report of the examiner, it may ask for a conference at a higher IRS level.

In an IRS examination, there are some recurring subjects the IRS examiner likely will inquire into. Because every Lodge probably will have an IRS tax examination at some time, the information set forth below can be used to plan the Lodge business operations to minimize potential problems from an IRS examination.

10-102. EXEMPT CLASSIFICATION: In a number of IRS examinations, the examiners have questioned the tax classification of the Lodge under Section 501(c)(8) of the Internal Revenue Code. That is the classification that has been assigned to Grand Lodge and Local Lodges by the national IRS Exempt Organizations office. We believe that classification cannot be changed by the IRS examiner but rather any change must be made by the national IRS Exempt Organizations office.

Therefore, if the IRS examiner raises a question about the 501(c)(8) tax classification, Lodge Officers or representatives should not attempt on their own to respond or to discuss “benefits” that are available to Lodge Members under the 501(c)(8) exemption. The examiner should be advised that benefits to members and dependents are provided by our National organization, Benevolent and Protective Order of Elks of the United States of America, Inc., under group exemption 1156. Said benefits were reported to the Exempt Organizations national office which issued IRS 501(c)(8) exemption for the National organization and Local Lodges. Questions should be addressed to Grand Lodge or the Exempt Organizations national office. In preparation for the Audit, the Lodge Secretary should request, from the Grand Secretary, a copy of the IRS letter granting that Lodge status under Group 1156.

A Lodge should not file its own application to IRS for tax exemption, even if an IRS examiner seeks to demand that. IRS says, “If your organization is controlled by a National organization, you should check with your National organization to determine whether your Lodge has been included in a group exemption letter or may be added. If so, your Lodge need not apply for individual recognition of exemption.” [IRS Pub. 557,] [IRS Pub. 557, p. 50].

Any questions from the IRS examiner about tax classification should be reported to the PGER State Sponsor, Grand Secretary and the A&A Area Committee Member. They can supply written information to support the 501(c)(8) tax classification which can be provided to the examiner as necessary.

10-103. UNRELATED BUSINESS INCOME: It is almost certain that an IRS examiner will seek to determine whether there is taxable unrelated business income (UBI) that the Lodge has not reported to IRS. This is of interest to IRS since it can result in additional tax collections.

IRS says, “The term ‘unrelated trade or business’ means any trade or business the conduct of which is not substantially related to the exercise or performance by the organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501.”

Below are guidelines for *avoiding* UBI where possible.

General Rules.

The Federal income tax exemption for Lodges applies to its “exempt function income” which IRS defines to mean “the gross income from dues, fees, charges, or similar amounts paid by members of the organization as consideration for providing such members or their dependents or guests goods, facilities, or services in furtherance of the purposes constituting the basis for the exemption of the organization to which such income is paid.”

Sales of goods or services to members are automatically tax-exempt and are not UBI.

Sales of goods or services to non-members will be presumed by IRS to be taxable UBI, although there are several exceptions discussed under subsection B below that if met will make those sales tax-exempt.

The IRS point of view is that the nature of the sale is determined mainly by who makes payment for the goods or services. If a member pays the bill, it will ordinarily be considered to be income from members.

IRS does not prohibit non-members from coming to the Lodge as guests of members. IRS defines a “guest” as “an individual invited to participate in an activity, accompanied by a member, and for whom all expenses are paid by the member.” Therefore, it is required that payment for goods or services for guests must come from the member and not from the non-member guest, or else the income will be UBI.

The tax exemption of Lodges does not generally apply for sales to the general public. IRS says, “Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business. ...”

According to the IRS, “The term ‘general public’ means persons other than members of a lodge/club or their dependents or guests. The member’s spouse is treated as a member.”

In some IRS examinations, examiners have raised a question about the proper classification of sales of goods or services to visiting BPOE Members from other Lodges. It is our firm position that sales to visiting members are not UBI, since all Lodges are under the same group exemption and operate by uniform national rules. Our position is supported by IRS pronouncements. Therefore, income from sales to visiting Elks should be recorded as any other member income on the records of the Lodge. It is recommended that visiting Elks do not sign the “guest register,” but their identities may be separately recorded for informational purposes in a special “visiting Elks” register.

If an IRS examiner takes the position that income from visiting Elks is UBI, contact the PGER State Sponsor and the A&A Area Committee Member for further guidance.

A. Tax-Exempt Sales to the General Public.

(1) Bingo

A Lodge can provide bingo games to the public without having UBI, provided the bingo games comply with IRS requirements.

The following is quoted from IRS Pub. 3079:

“Bingo is defined as a game of chance played with cards that are generally printed with five rows of five squares each. Participants place markers over randomly called numbers on the cards in an attempt to form a preselected pattern such as a horizontal, vertical, or diagonal line, or all four corners. The first participant to form the preselected pattern wins the game. As used in this section, bingo game means any game of bingo of the type described above in which wagers are placed, winners are determined, and prizes or other property are distributed in the presence of all persons placing wagers in that game.

The exception applies only if the game is legal under state and local law and not in direct commercial competition with similar games conducted by for-profit organizations.”

For the bingo exception, it does not matter if the bingo customers are non-members (*in fact, in most cases they almost invariably are*), and it does not matter if paid personnel are used to conduct the bingo games.

It must be noted however, that the bingo exception does not apply to instant bingo, pull-tabs, raffles, and similar gaming provided to non-members. (*But there can be an exemption under the volunteer workers exception discussed next.*)

(2) Volunteer workers exception

Goods and services provided by volunteer workers will not be UBI, even if the customers include non-members. This exception applies where “substantially all the work is performed for the organization without compensation.” According to IRS, the “substantially all” test is met when 85% of the total labor is provided by unpaid volunteers. The IRS says the percentage is determined by dividing the number of volunteers for the activity by the total number of workers for the activity, both paid and unpaid. (*However, any reasonable method of allocation should be acceptable.*)

The volunteer workers exception can apply to any Lodge fund-raising activity. For example, this could include instant bingo and pull tabs, raffles, etc., and also could include catering of food and beverage service, fund-raising events open to the public, etc. If those activities are conducted substantially all by volunteer workers, it will not be UBI, even if non-members are served.

(3) Rents from Lodge real property

Rentals of Lodge real property for occupancy only, without providing other services, can be tax-exempt, in whole or in part.

The rental exception for occupancy applies even if a non-member makes payment for the occupancy.

The rental can include incidental personal property leased with the real property, such as chairs, tables, etc., and can include services necessary for use of the property such as setting up a room, cleanup, and the like.

But the rental exception does not apply where the rental encompasses both occupancy and other services, such as providing food and beverages as part of the rental package. If the rental agreement includes both rental of space and catering services, IRS probably will take the position that none of the income comes under the rental exception.

But IRS also has said that “the catering may be analyzed separately from the rental of space if there is a separate charge paid in accordance with a separate agreement between the parties.” In that case, the rental income would not be UBI, but income from catering could be taxable as unrelated business income.

For Lodges that would like to rely on the rental exception, it would be good practice to have two separate contracts for functions: (1) a contract for occupancy of the space, stipulating a fixed price for the occupancy, and (2) another contract for any catering services to be provided. The occupancy income could then be classified as exempt income, regardless of who uses the space and pays the rent. The catering income would be classified separately and analyzed according to the general rules and volunteer workers exception described above.

Note: Rental income may be subject to tax in the proportion the property is debt-financed (*i.e., is subject to a mortgage*) if the rental is to non-members. This will be determined by the Lodge’s accountant or tax preparer at year-end, and any required adjustments to income and expenses will be determined at that time.

B. Recommendations for Separating Lodge Revenues.

The food and beverage service operations of a Lodge should be “departmentalized.”

A main *department* would be the private club or lounge area, which should be open only to members and their invited guests who are signed in. A sign outside this area should say “Members Only.” All payments for food and beverages in this area should be taken only from members. The records of this department should reflect that all income was received from members.

Another *department* would be for those Lodges that make a portion of their Lodge facilities available for use for functions at which non-members are present. This should be an area outside the private club or lounge facility. *(If a Lodge’s club or lounge facility is also sometimes made available for a private function, the time when it is being used for that function should be accounted for separately and included under this department and not the ordinary private club department.)*

If the private function is sponsored by a member, and if that member directly makes full payment for rental, food, and beverages, then the income from that function should be recorded as member income.

However, where payments are received from non-members, then that income should be separately recorded as non-member income. If one of the exceptions discussed above is applicable, then the income can be recorded as non-taxable per the applicable exemption.

If the unrelated income does not come under any exemption, then it should be recorded as taxable UBI, and the expenses related to that income should be separately determined and recorded. In that case, at year-end, then form 990T should be filed and the applicable income taxes paid.

These departmental procedures could, of course, result in the Lodge becoming liable for some income taxes by recording income from non-members in some departments. However, without a separation and accounting for non-member income, if an IRS examiner finds or concludes that there is in fact any non-member income, and if the Lodge is unable to provide an accounting of the amount of that income, the IRS agent might then classify all the income as coming from non-members. IRS states, “It is the responsibility of the exempt organization to demonstrate that a non-member is a bona fide guest so that the income is not taxable. The organization should maintain adequate books and records to identify members and their bona fide guests and distinguish them from non-members.”

The Chart of Accounts is designed to separate member and non-member income and expenses. A proven and consistent method of allocation of overhead expenses for each department must be presented to the examiner for justification of profits or losses. It is vitally important that your selected representative fully understands and applies these allocation methods. This could be an extreme burden on a Lodge that, for whatever reasons, has not filed a form 990T (Unrelated Business Income) tax form.

10-104. FORM 990: IRS Form 990 is the “Report of Organization Exempt From Income Tax” which must be filed annually by every Lodge.

On the front page of Form 990, in item “I – Tax-exempt status,” be sure to mark 501(c)(8).

Information about the annual revenues of the Lodge is to be recorded first in Part VIII. *(Part IX, column A, is to be used for general expenses.)* The figures from those Parts are then to be transferred to Part I – Summary on the front page in the applicable lines.

In Part VIII – Statement of Revenue, the Lodge should follow the rules set forth below to classify its sales of food, beverages and entertainment, and its gaming activities:

- (A)** All revenues from any activities that serve only members, including food and beverage sales in the social quarters, gaming, dances, dinners and all similar social functions or activities should be described and classified as “exempt function revenue.” **[Part VIII, line 2 column B].**

(B) All goods and services (*except gaming*) sold to the general public should be reported as fund-raising and classified as follows:

- (1)** Income from fund-raising activities to the general public that are conducted substantially by all volunteer members, less the related direct expenses, should be classified as excluded revenue. **[Part VIII, line 8 column D].**
- (2)** Income from fund-raising activities to the general public that are conducted by paid employees or contractors of the Lodge, less the related direct expenses, should be classified as “unrelated business revenue.” **[Part VIII, line 8 column C].** Also include in separate Form 990-T for UBI.

(C) Gaming income from the general public should be reported and categorized as follows:

- (1)** Income from bingo, less the related direct expenses, should be classified as excluded revenue. **[Part VIII, line 9c, column D].**
- (2)** Income from other gaming activities to the general public that are conducted substantially by all volunteer members, less the related direct expenses, should be classified as excluded revenue. **[Part VIII, line 9c, column D].**
- (3)** Income from other gaming activities to the general public that are conducted by paid employees or contractors of the Lodge less the related direct expenses, should be classified as “unrelated business revenue.” **[Part VIII, line 9c, column C].** Also include in separate Form 990-T for UBI.

For fund-raising and gaming income, it will be necessary also to complete Form 990, Schedule G.

Schedule G, Part II must be completed if the Lodge reports more than \$15,000 in gross revenues from fund-raising events.

Schedule G, Part III must be completed if the Lodge reports more than \$15,000 in gross revenues from gaming. The Lodge must classify those gaming revenues as indicated on Schedule G, Part III for specific gaming activities. On line 6, if substantially all of the organization’s work in conducting a type of gaming is performed by volunteers, check “Yes” and enter the percentage of total workers who are volunteers for each type of gaming conducted. (Refer to III(B)(2) of this memorandum for description of the volunteer labor percentage for exemption from UBI.)

NOTE: The above information is not intended as comprehensive tax advice, but rather to alert Lodges to the most significant tax issues that Lodges ordinarily encounter in an IRS examination. Other issues can arise which could require further consideration.

UNIFORM CHART OF ACCOUNTS

GENERAL

Use of the Uniform Chart of Accounts is mandatory for all Lodges as stated in Sections 4.330 and 13.040 of the Statutes. Lodges may not add account numbers to the Chart of Accounts without approval of the Auditing & Accounting Committee. Once approved, the account number(s) will be added to the *newly created stand alone Uniform Chart of Accounts document* posted online at elks.org in the Grand Lodge Auditing & Accounting Committee section.

GRAND LODGE AUDITING AND ACCOUNTING COMMITTEE



UNIFORM CHART OF ACCOUNTS

GENERAL

INTRODUCTION: Use of the Uniform Chart of Accounts is mandatory for all Lodges as stated in Sections 4.330 and 13.040 of the Statutes. It is designed to allow flexibility in the number of different accounts each Lodge will use and is adaptable for use in a computerized system. Each Lodge will use the approved Chart of Accounts and distribute the listing to all concerned for use in classifying assets, liabilities, receipts and expenditures for entry into the accounting system. Use the minimum number of accounts that will satisfy the following requirements:

Local sub-accounts can be added for unique activities of a Lodge as long as they are a sub to one of the Uniform Chart of Accounts numbers.

Accounts needed by Board or Trustees and entity managers for budget formulation and financial management.

Accounts needed to complete Federal, State and local income tax returns. Accounts needed to complete the financial report.

The Lodge listing should be updated annually by adding new accounts needed and eliminating those no longer used.

Lodges may not add account numbers to the Chart of Accounts without approval of the Auditing & Accounting Committee. Once approved, the account number(s) will be added to this *newly created stand alone Uniform Chart of Accounts document* posted online at elks.org in the Grand Lodge Auditing & Accounting Committee section.



BENEVOLENT AND PROTECTIVE
ORDER OF ELKS
OF THE UNITED STATES OF AMERICA

— EXHIBIT B —

GUIDE FOR REVIEWS BY LODGE AUDITING & ACCOUNTING COMMITTEE

This guide is for use in conducting reviews specified in Sec. 13.040(i) of the Grand Lodge Statutes. Before proceeding, Committee Members should read and achieve an understanding of the following:

- Sec. 12.050 — Duties of the Secretary
- Sec. 12.060 — Duties of the Treasurer
- Sec. 12.070 — Duties of the Trustees or Board of Directors
- Sec. 16.030 and 16.040 — Budgeting Requirements
- The Grand Lodge Auditing and Accounting Manual (Code 510100)

The Committee should keep in mind that the basic purpose of the review and report to the Lodge are to provide reasonable assurance (1) that cash assets are safeguarded against loss from unauthorized use or disposition; (2) that transactions are executed as intended by the Lodge and recorded in a manner that will promote accurate financial statements; and (3) that each entity utilize the required budget process to control expenditures and prevent year-end losses.

	YES	NO
1. Have the monthly financial reports been filed with Financial Reporting System at Adaptive Insights? . . .	<input type="checkbox"/>	<input type="checkbox"/>
2. Has Interest earned, as noted on bank or depository statements, been entered in the computer system? . . .	<input type="checkbox"/>	<input type="checkbox"/>
3. Do revenues from the following entries compare with source document and code number of the Chart of Accounts?	<input type="checkbox"/>	<input type="checkbox"/>
<i>a.</i> Receipts from each fund-raising event, special or catered affair?	<input type="checkbox"/>	<input type="checkbox"/>
<i>b.</i> Rental of Real Estate or facilities?	<input type="checkbox"/>	<input type="checkbox"/>
<i>c.</i> Daily Bar & Lounge receipts?	<input type="checkbox"/>	<input type="checkbox"/>
<i>d.</i> Daily food receipts?	<input type="checkbox"/>	<input type="checkbox"/>
<i>e.</i> Receipts from Bingo	<input type="checkbox"/>	<input type="checkbox"/>
<i>f.</i> Receipts from Entertainment Machines?	<input type="checkbox"/>	<input type="checkbox"/>
<i>g.</i> Others peculiar to the Lodge (i.e., Swimming Pool, Golf, Snack Bar, etc.)	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the Secretary receive all monies from all sources?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are bank deposits made promptly, for safeguarding purposes?	<input type="checkbox"/>	<input type="checkbox"/>
6. Do the deposits reconcile with Secretary's receipts?	<input type="checkbox"/>	<input type="checkbox"/>
7. Was the cash receipts journal correctly totaled and balanced?	<input type="checkbox"/>	<input type="checkbox"/>
8. Were entries from the cash journals correctly posted to the General Ledger?	<input type="checkbox"/>	<input type="checkbox"/>
9. Trace revenue entry to the General Ledger, to the entry in Cash Journal, and to the bank deposit slip. Was each entry correct?	<input type="checkbox"/>	<input type="checkbox"/>
10. Count cash on hand for each authorized entity. Did the amount reconcile with the recorded amount?	<input type="checkbox"/>	<input type="checkbox"/>
11. Does cash on hand held by all parties exceed limits of existing Insurance?	<input type="checkbox"/>	<input type="checkbox"/>

EXPENSE RECORD KEEPING

Examine a reasonable number of expense entries against the vouchers or invoices.

12. Is a voucher system used in authorizing expenditures by the Lodge?	<input type="checkbox"/>	<input type="checkbox"/>
13. Do check amounts agree with invoices?	<input type="checkbox"/>	<input type="checkbox"/>
14. Was the correct expense account code from the Chart of Accounts entered?	<input type="checkbox"/>	<input type="checkbox"/>
15. Are all invoices marked "Paid" with the date and check number posted thereon?	<input type="checkbox"/>	<input type="checkbox"/>
16. Were payroll checks computed correctly based on hours worked, taxes withheld?	<input type="checkbox"/>	<input type="checkbox"/>
17. Is the number of checking accounts kept to a minimum?	<input type="checkbox"/>	<input type="checkbox"/>
18. Are all checking accounts interest-bearing?	<input type="checkbox"/>	<input type="checkbox"/>

— EXHIBIT B — (continued)

Examine the Cash Disbursement Journals.

YES NO

- 19. Were the latest monthly Cash Disbursement Journals correctly balanced?
- 20. Were entries from the Cash Disbursement Journals properly posted to the General Ledger?
- 21. Select several expense entries from the latest monthly statements.
Trace the expense entry to the General Ledger, to the entry in the
Cash Disbursements Journal, to the check, and to the invoice. Was each verified and correct?
- 22. Were the statements from each Bank and Depository reconciled monthly?
- 23. Cash payouts are discouraged. Are they kept to a minimum?
- 24. Are cash payouts entered correctly in the appropriate Disbursement Journal?

BUDGET COMPLIANCE

- 25. Was a proper budget prepared for each entity of the Lodge?
- 26. Were the budget line items correlated well with the Chart of Accounts?
- 27. Was the Budget presented to the Lodge and approved by the members present?
- 28. Are monthly statements prepared and made available to compare with budget?.
- 29. Was an expenditure of any line item in excess of the budgeted amount?
- 30. If applicable, were expenditures for unbudgeted items first referred to the Trustees or Board
of Directors for consideration?
- 31. Do the Trustees or Board of Directors meet regularly to review the budget comparisons?
- 32. Do the Trustees or Board of Directors have a complete record of the Fixed Assets of the Lodge?

TAX COMPLIANCE

- 33. Examine income-producing activities to determine if there is unrelated business income.
Are records being kept on that segment of activity for the purpose of filing the IRS 990T Return?
- 34. Are Payroll Taxes withheld on all employees?
- 35. Has the Lodge rendered when due, all payroll, income and employment taxes?.
- 36. If contract labor is used, are 1099 forms issued when due?
- 37. If interest of \$10 or more is paid anyone, is 1099-INT form issued?
- 38. If applicable, is Sales Tax paid promptly when due?
- 39. Are all persons handling money properly bonded?

NOTE: The Lodge Auditing Committee should report the results of this review at a regular meeting of the Lodge, adding any recommendations the Committee may have.

REMARKS TO BE MADE ON SEPARATE PAGE IF NEEDED.

DO NOT send copy to Grand Lodge Auditing and Accounting Committee or with the D.D. Visit Report. Auditor to the District Deputy Grand Exalted Ruler will examine this report.

— EXHIBIT C —

**EMPLOYMENT OF ACCOUNTANT
CONTRACT TO PERFORM A FINANCIAL REPORT**

THIS AGREEMENT is made the _____ day of _____, 20____ by and between

_____ Lodge # _____ of the Benevolent and Protective Order
(Name of Lodge) (Lodge No.)

of Elks, a/an _____ non-profit Corporation, herein referred to as “Lodge,” whose address
(State)

is _____
(Street or P.O. Box No., Town, State and Zip Code)

and _____, whose address
(Name of Accounting Firm)

is _____ herein referred to as “Accountant.”
(Street or P.O. Box No., Town, State and Zip Code)

— ARTICLE I —

STATUS OF THE PARTIES

Lodge is a non-profit corporation, with principal offices in the city of _____, State of _____, and is a Local Lodge of the Benevolent and Protective Order of Elks of the United States of America.

— ARTICLE II —

EMPLOYMENT OF ACCOUNTANT

Lodge agrees to hire and retain Accountant in his capacity as Accountant agrees to such employment on the terms and conditions herein set forth.

— ARTICLE III —

DUTIES OF ACCOUNTANT

It shall be the duty of Accountant to prepare a financial report of the business affairs of Lodge for the Lodge year _____ - _____.

Accountant also agrees to complete all necessary annual tax returns required by Federal, State and local agencies (if any), in a timely manner, and have a financial report delivered to Lodge by June 15, _____. If any extensions for filing are necessary, Accountant shall make the necessary requests to I.R.S., State or local taxing agency.

— ARTICLE IV —

COMPENSATION OF ACCOUNTANT

Lodge agrees to pay Accountant for such services as herein set forth the sum of \$ _____, immediately upon completion of the financial report and filing of the necessary tax returns as described herein. Lodge also agrees to pay any reasonable necessary other expenses incurred by Accountant, such as filing fees, in the billing by Accountant to Lodge, but in no way to exceed the sum of \$ _____ as additional expense.

— ARTICLE V —

EMPLOYMENT OF ACCOUNTANT

All records and papers (including but not limited to, books, records, papers and other documents that belong to Lodge) that Lodge delivers to Accountant with respect to Accountant's duties hereunder, shall remain the property of Lodge.

— ARTICLE VI —

CONFIDENTIALITY OF RECORDS AND PAPERS

Accountant agrees that he will not at any time allow anyone to examine, make copies of, take possession of, the records and papers described in ARTICLE V.

— ARTICLE VII —

RETURN OF RECORDS AND PAPERS TO LODGE

Accountant shall at once return to Lodge all the records and papers described in ARTICLE V upon the occurrence of:

1. Lodge's request that such records and papers be returned to it, or
2. Accountant's violation of any commitment under ARTICLE VI, or
3. A request by anyone (other than the Lodge) to examine, copy or take possession of any such records and papers, or
4. An attempt is made to serve upon the Accountant, whether successful or not, any judicial administrative order, subpoena or summons having the purpose of requiring the production of such records and papers.

— ARTICLE VIII —

EFFECTIVE DATE

This agreement becomes effective on the date designated herein above.

IN WITNESS WHEREOF, the parties have executed this agreement at _____,
the day and year first above written. (Designate Place of Execution)

_____ Lodge # _____
(Accountant)

by _____
(Chairman of Board of Trustees or Board of Directors)

EXAMPLE OF INVENTORY CERTIFICATE

Dear Sir:

In connection with your examination of the Balance Sheet of _____, Lodge # _____, B.P.O. Elks, as of March 31, 20____, the following is a summary of the inventory which has been determined under our general direction and control:

- 1. Liquor \$ _____
- 2. Mixers \$ _____
- 3. Beer..... \$ _____
- 4. Wine..... \$ _____
- 5. Cigars and cigarettes..... \$ _____
- 6. Other Merchandise..... \$ _____
- 7. Restaurant..... \$ _____

The above amounts were determined by: Actual Inventory _____; Estimated Inventory _____.
To the best of our knowledge and belief:

- 1. Inventory quantities are correct and were determined by actual count, except as follows:

- 2. Estimated inventory was determined in the following manner:

- 3. The goods and merchandise included in the inventory are the property of _____, Lodge # _____, B.P.O. Elks and none are encumbered, or held on consignment from others, or subject to any liens, except as follows:

- 4. The inventory has been valued at:
Cost: _____ Cost or Market, whichever is lower: _____
Other: _____
(Obsolete, defective, old goods, etc., valued at \$ _____ are not included in inventory at prices in excess of net realizable value.)

To the best of our knowledge and belief the amounts stated above are a fair and proper valuation of the inventory for inclusion in the Balance Sheet, for period ended March 31, 20____.

Yours very truly,

_____ Lodge # _____, B.P.O. Elks

By _____
(Chairman, Auditing Committee)

(Member, Auditing Committee)

(Member, Auditing Committee)

CLUB MANAGEMENT

Section 16.040, provides, “The club, social parlor or other facility established in connection with the Lodge, whether the Lodge is incorporated under the provisions of Section 16.020 or is unincorporated, shall be managed, supervised and controlled by one of the following methods: (To be determined by Local Lodge By-Laws)

- (a) By the Exalted Ruler, Esteemed Leading Knight, Esteemed Loyal Knight, Esteemed Lecturing Knight and the Trustees of the Lodge; *or*
- (b) By the Trustees of the Lodge; *or*
- (c) By a House Committee (of not fewer than 3 or more than 13) to be appointed by the Exalted Ruler of the Lodge (the exact number must be set forth in the [Local Lodge] By-Laws); *or*
- (d) By the Board of Directors of a corporation formed under Section 16.030.”

It is the responsibility of this selected group to supervise any and all of the activities of the club, social parlor or other facilities established in connection with the Lodge.

MANAGEMENT

The manager in a small Lodge might be the Exalted Ruler, Chairman of the Board of Trustees or Chairman of the House Committee. In larger Lodges it is probable the manager may be a professional hired by the House Committee.

DUTIES OF MANAGER

The duties of the manager are many and varied; selecting the staff, providing internal controls of funds and assets, establishing competent record keeping; supervising purchases, receiving, operations of the grill, restaurant and any entertainment. In addition he is responsible for the maintenance of equipment, sanitation and quarters.

In accordance with Grand Lodge Statute 16.040, it shall be the duty of the supervising or managing body of the club, social parlor or other facility, to present to the Lodge for approval not later than the final regular meeting of the Lodge in April of each year, separate and comprehensive budgets for the proposed operation of the club, social parlor or other facility. Each supervising or managing body shall submit a monthly written report to the Lodge showing the financial condition of the club, social parlor or other facility with a comparison to each budget item.

INTERNAL CONTROLS

It is well known continuous attention must be paid to the entire operation of the bar and food services, due to careless employees, employees who are not trustworthy and those who are inefficient. Any of these may cause spillage, over-pouring of drinks, free drinks to friends, disappearances, improper recording of cash received, poor accounting practices and theft. Each of these create losses which could be avoided with proper internal controls.

Each club should have a recording cash register, with sufficient flexibility to record all sales by product; a numbered continuous tape locked within the cash register. Someone other than the waitress or bartender should be the only one with access to the locked tape.

These tapes should be checked with cash receipts turned in by the employee and be compared with bank deposits to insure proper amounts are received.

BEVERAGE COST CONTROL

Cost of goods sold in the bar must be controlled; steady portions sold, proper pricing, avoidance of over-pouring, spillage and proper purchasing. It is recommended the cost of goods sold does not exceed 35% of sales.

All purchasing should be under the direct control of the manager; payment of purchases should only be paid as authorized by him. The exception would be when the vendor requires cash on delivery. If this is the case, then the person paying the bill must have an itemized statement, compared with the delivery to determine if all items charged for are received; then a copy marked “paid” and signed by the delivery person.

— EXHIBIT E — (continued)

The inventory stockroom should be controlled by someone other than the bartender. It should be securely locked at all times and only one person should have access for the purpose of storing and issuing the merchandise. A requisition in duplicate should be required for all merchandise issued.

A perpetual inventory record should be maintained and physical inventory should be taken at least monthly to be compared with the balances shown on the inventory cards. These inventory cards should be checked by the Local Lodge Audit Committee periodically and without prior notice.

LABOR COSTS

Salaries and wages in the bar should never exceed 35% of sales. This can be controlled by a study of the hours the bar is open and the non-productive periods **having a minimum of employees on duty.**

ENTERTAINMENT COST

We feel the cost of entertainment should be an expense where it is used. If you hold a dance and the Lodge receives the proceeds then the cost should be charged to the Lodge.

Entertainment in the bar should be charged to the bar as cost of goods sold and should not exceed 6% of the sales. If it is in the dining room then it should be charged to the dining room and again never more than 6% of the sales.

FOOD SERVICE

Food Service is probably one of the most controversial and potentially financially dangerous of all the operations from a profit and loss standpoint.

Our Lodges should not enter this field without first making a thorough survey and evaluation before entering the food business. Is there a sufficient demand for these services? Are there enough member customers to provide a profit or at least a break even? Is a loss indicated which might be partially or completely overcome by increased beverage sales? Have you sufficiently checked the cost of entering this new venture? Would competition of local area restaurants affect the dining room or the Lodge in any way? Should we consider a full menu or just fast food type service? Are physical facilities adequate? Can we pass local sanitation requirements and have we sufficiently studied licensing regulations if such exist?

If your survey indicates food service may be profitable you must realize an efficient operation requires planning and very close supervision.

Close attention must be paid to the menu, **DO NOT TRY TO SERVE EVERYTHING**, keep your menu small with a minimum number of items. Prices must be developed to provide a profit and yet be attractive enough to bring your members in to dine with you.

It is very important that a monthly inventory be taken with a complete comparison between purchases, sales and ending inventory to be assured nothing is being given away or stolen.

Monthly reports of income and expenses with a strict inventory comparison should be presented to the house committee and reported to the Lodge. Prices must be adjusted as well as portions served to insure a profit in the dining room. Strict inventory control is a must if you are to have a profit.

Proper purchasing is a must, then you must be assured you have received what you ordered, that you receive what you are charged for and that it is stored properly to avoid spoilage. You must have someone in charge who is knowledgeable about food service; someone who will purchase quality merchandise at a favorable price. The grade, size, pack and quality must be proper and satisfactory for you to serve quality food.

As in the bar, cost of goods sold should never exceed 35% of sales and your labor should also not exceed 35%. Volunteers should be utilized whenever possible.

If you find your dining room is constantly losing money, then consideration should be given to closing your food service. Those who continually lose money are fooling themselves when they say they keep the dining room open to increase attendance in the bar!

The Lodge Audit Committee should refer to the G/L District Deputy Manual (Available on-line) for current operational check-off lists and internal inspection forms. These are the most current guides for Lodge compliance.

— EXHIBIT F —

GUIDE FOR REVIEW BY DDGER AUDITOR

— AUDIT COMMITTEE REVIEW —		YES	NO	N/A
1.	Did the Audit Committee perform its financial reviews in July, October and January and file a written report with the Lodge as required by Section 13.040(i) of the Statutes?			
— GENERAL REVIEW —		YES	NO	N/A
2.	Did the Lodge take appropriate action on the suggestions or recommendations made by the accountant?			
3.	Did the Lodge take appropriate action on the suggestions or recommendations made by the Area Member of the Grand Lodge Auditing and Accounting Committee?			
4.	Does the Lodge use, and are the books set up with, the “Chart of Accounts”?			
5.	Were all entities of the Lodge, club, dining room, health room, swimming pool, golf course, bingo, separate corporations, etc. included in the Combined Balance Sheet?			
6.	Are budgets prepared for each entity (Lodge, club, dining room, health room, swimming pool, golf course, bingo, separate corporations, etc.)?			
7.	Does the Lodge use an adequate bookkeeping system? Computerized <input type="checkbox"/> Computer Services Firm <input type="checkbox"/>			
8.	Are postings performed currently and cash receipts records current?			
9.	Are regular monthly financial reports or statements reported to the membership?			
10.	Do monthly financial statements include a budget comparison? <i>If not, explain on last page what action is taken to compare actual revenue and expenses to budgeted amounts.</i>			
11.	Are expenditures, which are not in the budget, cleared through the Board of Trustees or Board of Directors before being presented to the membership? (Sec. 12.070)			
12.	Does the Exalted Ruler know that all expenditures not covered by the budget have to be presented to the Board of Trustees or the Board of Directors first, and then to the membership?			
13.	Is there evidence that decisions are made to adjust operations in order to prevent year-end losses?			
14.	Are 941 and 940 and state payroll reports and payments current?			
15.	Are all Business/Occupation and Sales Tax Reports and payments current?			
16.	Are all property tax reports and payments current (where applicable)?			
17.	Do W2’s balance with 941 reports?			
18.	Are all 1099’s reporting current?			
19.	Have tax forms 990 and 990-T been filed and are they current?			
20.	Are bank reconciliations and investment reconciliations performed monthly and current?			
21.	Are balances in each account kept to a reasonable maximum amount?			
22.	Are proper payroll taxes being paid on all employees?			
22a.	Are tip records maintained?			
— TRUSTEE AND CLUB MANAGEMENT —		YES	NO	N/A
23.	Do the Trustees or Board of Directors have a current inventory of fixed assets?			
24.	If the Lodge has investment funds (stocks, bonds, CD’s), does it appear that they are well-managed by the Trustees or Board of Directors with no recent significant losses?			
25.	Is the interest from investment accounts posted to the books of record on a current/quarterly basis?			

— EXHIBIT F — (continued)

26.	In reviewing the records of cash overages/shortages (club, dining room, etc.), does the Lodge have an adequate policy for handling cash shortages?			
27.	Is a voucher system used as authorization to pay bills for the Lodge and the club?			
	Are vouchers signed by the Exalted Ruler and Secretary as required by Section 12.060 of the Statutes?			
28.	After the ER and Secretary approve vouchers, are all bills then presented to the Board of Directors or Lodge Trustees for review and approval? (NOTE: ALL bills are to be vouchered, including recurring expenses such as utilities, mortgage, etc.)			
29.	Are all bills read at the Lodge meeting and approved by the membership?			
30.	Does the Chairman of the Club Management body review all club-related bills before they go to the Lodge Secretary?			
31.	Are inventories taken by individuals other than the bartenders, steward or chef?			
32.	a. Are register tapes checked daily against cash turned in, by someone other than the cashier or bartender?			
	b. Are tapes/receipts turned over to the Lodge bookkeeper?			
33.	Does the Club Management body recap all club-related revenues and disbursements monthly?			
34.	When was the last date our insurance was reviewed? _____			
35.	The insurance review was made by the Board of Trustees or Board of Directors and found: Adequate <input type="checkbox"/> Inadequate <input type="checkbox"/>			
36.	Has the Lodge obtained free appraisal from Grand Lodge Insurance Department? Yes <input type="checkbox"/> No <input type="checkbox"/>			
	Is the Lodge Insured at a minimum of 80% of the appraised value? Yes <input type="checkbox"/> No <input type="checkbox"/>			
37.	Does the Lodge carry any other voluntary insurance programs?			
	Directors and Officers/Employment Practices	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
	Workers Compensation/Volunteer Coverage	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
	Automobile insurance	Yes <input type="checkbox"/>	No <input type="checkbox"/>	
	Other insurance: _____	Type: _____		
— SECRETARY REVIEW —		YES	NO	N/A
38.	Are all funds submitted directly to the Secretary? (This includes funds from all Lodge Committees, House Operations, Refunds, Bank Transfers, etc.)			
39.	Are all funds entered into the cash receipts book? (If not, explain on last page)			
40.	Does the Secretary issue a receipt for all funds submitted to him?			
41.	Does the Secretary submit funds to the Treasurer on a timely basis?			
42.	Does the Secretary, when submitting funds, designate the accounts affected?			
43.	Does the Secretary properly report, in detail, "Receipts of the Session" at the Lodge meetings – using the Cash records as the basis for the data?			
44.	When the Secretary receives any cash, does he make the proper entries in his cash records, designating what/where the cash is from?			
45.	Does the Secretary receive all Committee reports with funds and bills attached, in a timely manner? (This includes Lodge Committees, House Committee).			
46.	a. Is a gross income and expense report for each fundraising or special event provided by the Committee Chairperson?			
	b. Is it reported within two weeks after each event?			
47.	Do the various committees understand that they are not to make any cash payments (will be done through the Voucher System)?			
48.	Are these reports reconciled by the Secretary or Treasurer?			

— EXHIBIT F — (continued)

49.	Review and verify all employee personnel records for: a. Are I-9 Forms complete with Driver's License, Social Security Card and Resident Alien card if necessary?			
	b. Verify that all employees have signed the Harassment Policy?			
	c. Confidentiality Agreement signed?			
	d. At Will Employment Agreement (where applicable)?			
50.	Have the Lodge Officers and House Committee members signed the Harassment Policy?			
51.	Does the Lodge retain employment tax records for four (4) years and income tax returns and records for three (3) years?			
52.	Does the Secretary maintain security of all records (G.L.S. Section 16.110)?			
53.	Review and verify that Restricted Fund Records are complete and funds are being disbursed to the appropriate recipients.			
54.	Is the dues data posted properly, and on a current basis, to the individual Membership Records? (Whether manual or computerized system)			
55.	Is the dues information posted correctly to the Secretary's Cash Receipts Book?			
56.	Does the House Committee submit proper records to the Secretary related to bar operations (Register tapes, proper allocation of all register readings, etc.)?			
— TREASURER REVIEW —		YES	NO	N/A
57.	Does the Lodge Treasurer serve as Treasurer of all Committees regardless of what committee is involved?			
58.	Does the Lodge Treasurer sign all checks for all accounts as required by Section 12.060 of the Statutes?			
59.	Does the Treasurer issue a receipt to the Secretary for all cash receipts received?			
60.	Does the Treasurer maintain the books of record; Cash Receipts – Disbursement Journal and General Ledger?			
61.	Are the receipts, and disbursements for the year, along with the budget comparison presented to the Trustees or Board of Directors (or budget committee), in Chart of Accounts order, for the budget preparation?			
62.	Do revenues from the following entries compare with source document and code number of the Chart of Accounts and are they posted properly?			
63.	Have the cash receipts and cash disbursements been posted in a current manner, and to the proper accounts?			
64.	Are separate controls set up for Unrelated Income activities and Restricted accounts?			
65.	Has Interest earned, as noted on bank statements, or from investments, been entered in the cash receipts journal?			
66.	Do the deposits reconcile with both the Secretary and Treasurer's receipts?			
67.	Was the Cash Receipts Journal correctly totaled and balanced?			
68.	Were entries from the cash journals correctly posted to the General Ledger?			
69.	Trace revenues entry to the General Ledger, to the entry in the Cash Journal, and to the bank deposit slip; was each entry correct?			
70.	Do check amounts agree with invoices?			
71.	Were the latest monthly Cash Disbursement Journals properly posted to the General Ledger?			
72.	Were the statements from each bank or Depository reconciled monthly?			
73.	Were all tax payments, payroll, sales, etc., paid when due? (Note section on taxes)			
74.	Are the Lodge records maintained utilizing the Uniform Chart of Accounts as required by Section 13.040?			

— EXHIBIT G —

Sample General Journal Entries

Definition: A Journal Entry is a manual adjustment to the Balance Sheet or Profit and Loss Statements that does not normally affect the recording of Income or Disbursements. Journal entries can be a simple Debit to one account and off-setting Credit to another account. Journal entries can also become very complicated and require the assistance of a qualified Accountant.

1 I want to record monthly or annual Depreciation costs on the building of \$1000.00.

Acct. 39901 Depreciation	Debit \$1000.00
Acct. 15200 Accumulated Depreciation	Credit \$1000.00

To record depreciation expense.

2 I found that two prior years Depreciation Expense had never been recorded in the books in the amount of \$10000.00 on equipment.

Acct. 29900 Ending Equity	Debit \$10000.00
Acct. 15600 Accumulated Depreciation	Credit \$10000.00

To record prior period depreciation expense. (Caution should be used when posting anything to the Equity Account. Consult with your Accountant.)

3 I want to record Pre-paid Dues as current Income in the amount of \$24000.00

Acct. 28100 Deferred Dues	Debit \$24000.00
Acct. 30101 Members Dues	Credit \$24,000.00

To record current year Dues.

4 I want to correct a mortgage payment posted to interest expense that contained the principle portion of the note in the amount of \$600.00.

Acct. 23200 Mortgage Payable	Debit \$600.00
Acct. 34300 Interest	Credit \$600.00

To correct principle portion of mortgage payment.

5 I collected \$900.00 in March for a June banquet. I posted the funds to Acct. 21100 Pre-Paid Customer Deposits. I now want to record the deposit as Special Events Income.

Acct. 21100 Pre-Paid Customer Deposit	Debit \$900.00
Acct. 50103 Special Events Food	Credit \$900.00

To record customer deposit as current income.

6 I want to give the kids hotdogs from the kitchen for a swimming party at a cost of \$85.00.

Acct. 39012 Swimming Pool	Debit \$85.00
Acct. 51500 Food Purchases	Credit \$85.00

To record the use of hot dogs at the swimming pool.

7 I want to give bar sodas away at the kids Christmas party. Cost to the bar \$150.00.

Acct. 93105 Kids Christmas	Debit \$150.00
Acct. 41503 Bar Supplies/Sundries	Credit \$150.00

To transfer bar inventory cost to kids Christmas party.

8 At the end of the fiscal year I want to close Charity Income to the Balance Sheet Restricted Account. Elks National Foundation \$6000.00, State Major Project \$8000.00 and Other Charities \$8000.00.

Acct. 90201 Elks National Foundation	Debit \$6000.00
Acct. 90202 State Major Project	Debit \$8000.00
Acct. 90205 Other Charities	Debit \$8000.00
Acct. 29013 Elks National Foundation	Credit \$6000.00
Acct. 29015 Major Project	Credit \$8000.00
Acct. 29018 Other Charities	Credit \$8000.00

To close Charity Income accounts to the Balance Sheet Restricted Funds

— EXHIBIT G — (continued)

- 9 At the end of the fiscal year I want to close Charity Expense Accounts to the Balance Sheet Restricted Funds Account. Elks National Foundation \$6000.00, State Major Project \$7500.00, Dictionary Project \$3000.00, Kids Christmas \$500.00 and Veterans Activities \$4000.00.

Acct. 29013 Elks National Foundation	Debit \$6000.00
Acct. 29015 Major Projects	Debit \$7500.00
Acct. 29018 Other Charities	Debit \$7500.00
Acct. 92201 Elks National Foundation	Credit \$6000.00
Acct. 92202 State Major Project	Credit \$7500.00
Acct. 93101 Dictionary Project	Credit \$3000.00
Acct. 93105 Kids Christmas	Credit \$500.00
Acct. 93120 Veteran's Activities	Credit \$4000.00

To close Charity activities expenses to the Balance Sheet Restricted Funds

- 10 We received \$25,000.00 unrestricted grant which was posted to Account 91050 Temporary Restricted Income, and now we want to restrict its use for a future project before we close the books for the year. A lodge vote restricted the funds.

Acct. 91050 Temp. Restricted Lodge Grant	Debit \$25000.00
Acct. 29020 Temp. Restricted Lodge Funds	Credit \$25000.00

To transfer Lodge Grant funds to a future use fund by Lodge vote.

- 11 By Lodge vote we used \$15000.00 of Temp. Lodge Restricted Funds Account 28900 to repair the parking lot. We now need to recognize the funds as current income.

Acct. 29020 Temp. Restricted Lodge Funds	Debit \$15000.00
Acct. 91051 Temp. Restricted Lodge Transfer	Credit \$15000.00

To record the use of Temp. Restricted Lodge Funds as current Income.

- 12 We have voted that \$10000.00 set aside in the Account 28900 Temp. Restricted Lodge Fund is no longer needed for the intended purpose and we can now use the funds as general operating funds.

Acct. 29020 Temp. Restricted Lodge Funds	Debit \$10000.00
Acct. 91051 Temp. Restricted Lodge Transfer	Credit \$10000.00

To record the release of restricted funds for Lodge operations and current Income.

- 13 Over the years we have not properly balanced our Permanent Restricted Funds with available Cash Accounts. We found an out of balance of \$15000.00. The Lodge has investigated and voted that the books should be adjusted before the end of the fiscal year as a prior period adjustment.

Acct. 29110 Permanent Restricted Funds	Debit \$15000.00
Acct. 29900 Ending Equity	Credit \$15000.00

To balance Permanent Restricted Funds with actual cash account as per Lodge vote on _____. (caution: consult your accountant on any entry made to the Ending Equity Account.)

— EXHIBIT H —

GLOSSARY OF TERMS COMMONLY USED BY ELKS LODGES

1 Accounting Period:	Elks year April 1–March 31. Can be a month or quarterly period for internal review.
2 Accrual Accounting:	A method of accounting where income is reported in the period earned and expenses are reported in the period incurred as opposed to income and expenses reported as received and paid.
3 Assets:	Any property with a value. This could be the purchase price or fair market value.
4 Audit:	An audit is defined as a formal or official examination and verification of accounts. It results in a final report by a Certified Public Accountant (CPA) setting forth his opinion. An audit requires more work and is more costly than a review or compilation. An audit is appropriate for any Lodge, but more so for larger Lodges that have a complex organization or extensive assets.
5 Balance Sheet:	A form of reporting the financial condition of a Lodge on a given date. Most beneficial if prepared monthly and must be prepared annually. The report consists of Assets, Liabilities and Equity. Assets = Liabilities + Equity
6 Balance Sheet Assets:	Consists of Cash, Accounts Receivable, Fixed Assets, Investments and Other Assets. Accumulated Depreciation decreases the value of Fixed Assets.
7 Balance Sheet Liabilities:	Consists of Accounts Payables, Other Payables, Mortgage & Notes Payable, Deferred Income (Per-Paid Dues).
8 Balance Sheet Equity:	Consists of Permanently & Temporary Restricted Funds and Owners Equity.
9 Budget Integrity:	Each Department (Class) budget is designed to create sufficient Income to cover Expenses and show an annual profit. Negative budgeting is not an option.
10 Budget-Operating:	The planning document to guide each Department (Class) in maintaining financial integrity.
11 Budget Review:	The process of periodically comparing actual Income and Expenses with approved budgets to insure financial integrity.
12 Budget-Capital:	A long range business plan for the replacement of obsolete assets, major repairs and improvements. This plan should be at least a five year plan. Funding comes from profits of the Departments (Class) operations and Lodge directed Temporary Restricted Funds.
13 Cash Accounting:	Income and expenses are reported when received and paid.
14 Cash Flow:	Cash Flow is the relationship between currently generated Income and actual Expenses for the total operation.
15 Cash Flow-Negative:	Excess current Expenses over Current Income. Continued operating with negative Cash Flow will render a Lodge insolvent.
16 Cash Flow-Positive:	Should be the goal of every Department (Class). Provides funds for the Capital Budget.
17 Charity Fund Raising:	Charity Fund Raising is a function of the Temporary Restricted Funds. If an activity is advertised as a Charity Event, the gross proceeds must be deposited in the Charity Bank and credited to Temporary Restricted Funds. Expending the Funds for the Charity will result in a credit to the Charity Bank and Debit to Temporary Restricted Funds in the Chart of Accounts.
18 Chart of Accounts:	A mandatory listing of account numbers and titles for consistent recording of all business transactions which create necessary management financial statements.
19 Capitalize:	To treat an expenditure as a property item rather than to expense it in the current fiscal year.
20 Compilation:	A compilation merely presents, in the form of financial statements, information that is the representation of Lodge management.
21 Corporation:	A business entity owned by shareholders that is treated as a separate entity. The shareholders of the corporation do not have personal liability.
22 Corporation Directors:	Per Grand Lodge Statue 16.020 is comprised of the 4 chair officers and the board of trustees.

— EXHIBIT H — (continued)

23 Cost of Goods Sold [COGS]:	Simply means the cost of the items sold. To calculate the Cost of Goods Sold you must have a Beginning Inventory (at cost price), plus purchases for the period, minus the Ending Inventory (at cost price). The dates for the Cost of Goods Sold must be the same as the dates included in the period of sales.
24 Cost of Good Percentages:	Cost is the relative percentage of sales for the same period. Calculated as: Cost divided by Sales. Cost \$6,000 divided by Sales \$18,000 equals 33% Product Cost.
25 Cost of Labor Percentage:	Cost of Labor is the relative percent of Labor to Sales. Calculated as Total Cost of Labor divided by Sales for the same period of time. Labor \$6,000 divided by Sales \$18,000 equals 33% Labor Cost.
26 Cost Percentage Goals:	Cost of Goods Sold and Labor Cost should not exceed 35% each of the Sales for the Department. Maintaining these goals will most likely keep the Lodge in a positive Cash Flow.
27 Deferred Income:	Advance payments received for an event to take place in the future, especially after the close of a current Fiscal Year. These funds are a Liability until the event actually happens. Very useful for any type of pre-scheduled events such as bowling and golf tournaments, hall rentals and security deposits. These deposits become Income on the day of the event by Journal entry "Debit Deferred Income and Credit the Activity Income Account. Refunds from this account are neither Income or Expense.
28 Depreciation:	The pro-rated depletion of property value over its useful life. Accounting guidelines apply to the depreciable life of property.
29 Depreciable Property:	Property of a substantial value and has a useful life of more than one year.
30 Departments (Class):	A Department (Class) is a logical designation of Income and Expenses used to create Profit and Loss Statements. Example, Lodge, Bar, Food, RV Park, Fitness Center and Rental Activities.
31 Employee:	An individual whose work is performed under the control or direction of the employing Lodge.
32 Employee Compensation:	Payments made by the employer to individual who perform work under the employers supervision.
33 Employment Taxes:	Mandated amounts paid to government agencies based on employee compensation. The taxes can be for the benefit of the employee or the government agency.
34 Fair Market Value:	The value of property established for the price a willing buyer would pay a willing seller.
35 Fiduciary:	An individual with the discretionary authority to manage another's property. Also an individual who holds assets in trust in which another person has an interest.
36 Fiduciary Responsible Person:	The manager of assets assigned by a legal trust and/or implied trust. Failure to exercise fiduciary responsibility could cause the individual to become personally liable for the value of the asset.
37 Financial Charges:	Interest or other charges paid on purchases made on a deferred-payment plan.
38 Fiscal Year:	The twelve month period starting April 1 and ending March 31 the next year. (Elks Fiscal Year)
39 Financial Integrity:	Each Department (Class) must be able to financially stand alone without dependence on other Revenue and should show some profit.
40 Independent Contractor:	A person whose work hours and procedures are not controlled by another and who is therefore deemed to be self-employed. Strict guidelines for this Classification are prescribed by IRS and State Authorities.
41 IRS Forms 990, 990EZ, 990N & 990T:	Non-Profit organization tax returns which must be filed annually and by the due date prescribed by IRS.
42 Pre-Paid Expenses:	Payments made for an expense in advance of the due date. This account is used at or near the end of a fiscal year when the actual expense will apply to the new fiscal year and budget year. Example, advance payment for meetings and conventions. The expense is recorded by a journal entry "Debit Expense Account and Credit Prepaid Expenses". This Account is an Asset on the Balance Sheet.

— EXHIBIT H — (continued)

43 Profit & Loss Statements:	A financial statement by operating departments (class) that shows the profitability of a major cost center in the total Lodge operation. Reports are based on a period of time, usually monthly but always annually. This is the best tool to evaluate the financial health of a department (class).
44 Profit & Loss Departments-Non-Inventory Sales:	Consists of Income from all Activity sources, less expenses appropriately allocated to that activity. Net results should be a profit.
45 Profit & Loss Department with Inventory as source of income:	Consists of Sales (less Sales Tax) from all sources. Cost of Goods Sold and Overhead Operating Expenses. The net result should be a Net Profit.
46 Profit Motive:	Each Department in a Lodge must strive to obtain a profit. Profits are required for future replacements and improvements. Failure to reach a profit goal will eventually render the Lodge insolvent.
47 Qualified Accountant:	An individual having one of the following <i>confirmed credentials</i> : <ol style="list-style-type: none"> 1. CPA 2. “Bachelor’s Degree” in accounting 3. “Master’s Degree” in accounting 4. Public Accountant/Licensed Public Accountant 5. Certified Internal Auditor 6. A person holding a Certificate in Management Accounting 7. “Enrolled Agent”
48 Restricted Funds Temporary:	These are donated funds with a donor designated purpose and with a relatively short holding period by the Lodge until they are disbursed as directed. They are to be placed in a restricted account and not co-mingled with or available for general Lodge use. G/L Statutes Sec. 16.011 applies to management of these funds. These Funds become part of the Equity section of the Balance Sheet. ENF, ENF Grants, State Major Projects, Scholarships and Bingo are examples of Restricted Funds Temporary.
49 Restricted Funds Permanent:	These are special purpose funds designated by the Donor, Grantors or a Bequests. Many times a legal documents state the purpose and duration. Lodges have a fiduciary duty to follow the dictates of the Donor. Diversion of these funds can be made only by the Donor and in some cases a court order. Legal documents will usually dictate how the fund is to be dissolved at the end of the purpose. These funds are part of the Equity Section of the Balance Sheet. Other strict enforcement standards are outlined in G/L Statutes Sec. 16.011.
50 Unrestricted Funds:	These funds are donations from members or the public with no use restrictions. They may or may not even require special handling other than reportable income. The funds could become Temp. Restricted at the discretion of the Lodge by majority vote, by By-Law or by the management body responsible for excess funds. Once the decision is made, the funds are reportable as Equity on the Balance Sheet and available for the designated purposes. The funds become Income and expense to the Lodge only when used. The funds can be diverted to other purposes only by the same authority establishing the Fund.
51 Restricted Fund Earnings:	The earnings from held Restricted Investments are disbursed in accordance with the Donor’s wishes or legal documents. Should no instructions be imposed, earnings should disbursed by majority vote of the Lodge.
52 Restricted Fund Security:	Restricted Funds are Equity on the Balance Sheet. It is imperative that an identical amount of Cash Savings or Investment Accounts reconcile with the Restricted Fund balances. Investors should not place the fund at undo risk.
53 Review:	A review is an engagement performed by a Certified Public Accountant (CPA) which is less expensive than an audit examination. The CPA determines whether material modifications exist that do not present financial information in conformity with generally accepted accounting principles. He makes this determination after conducting inquiries of Lodge personnel and performing an analytical review of procedures.

— EXHIBIT H — (continued)

54 Tangible Personal Property:	Physical property that can be moved, such as furniture, computers and equipment. Some State Agencies tax these items annually as a Personal Property Tax. Always purge your inventory to delete obsolete or unserviceable personal property.																		
55 Tax Status:	<p>Elks Lodges are designated Non-Profit Entities as long as strict IRS Tax Code Sections are adhered to.</p> <p>a. IRS Code Sec. 501 (C)(8). A Fraternal Lodge operating authority under which all Elks Lodges must annually report their activities on IRS Form 990 and 990T.</p> <p>b. Group # 1156 is the authority established for control of Elks Lodges and managed by Grand Lodge Order of Elks.</p> <p>c. IRS Code Sec. 501 (C)(3). Non-Profit Charities is a special authority approved by IRS upon application and the granted by the Grand Lodge Order of Elks.</p> <p>d. IRS Code Sec. 501 (C)(2). Non-Profit Holding Company. This status can be established to hold title to Lodge properties. Grand Lodge Order of Elks must approve the use of a holding company. Profit from rents must be distributed to the parent Lodge at least once a year. Holding of excess fund is prohibited. No other business activities can be permitted to operate in a Holding Company.</p>																		
56 Tax Reporting:	All Lodges must file annual Tax Returns on the appropriate IRS and State Tax Forms by the due date for the return. Failing to comply could result in serious financial penalties and could cause the Lodge to loose its' non-profit status.																		
57 Types of Financial Statements	<p>An audit is an inspection and verification of accounting records to ensure the accuracy and consistency of accounting practices.</p> <p>a. Internal Review: An action by the Lodge Audit Committee to verify records and assist management in correcting accounts through-out the accounting year.</p> <p>b. Independent Accountant: The hiring of an Accountant who has no day to day involvement in your daily accounting and reporting activities. An independent and objective review of your accounting practices.</p> <p>c. An Audit, Review, Compilation and In-House Reports are detailed in chapter 9 of this manual and Sec. 13.040 of the G/L Statutes. Compilation and In-House Reports are of the least value to management because they provide very little record verification and management assistance.</p>																		
58 Unrelated Business Income:	Net Income generated from activities operated for the benefit of non-members may be classified as Unrelated Business Income. All the Income could be taxed by the IRS if improperly accounted for.																		
59 Unrelated Business Income-Records:	The mandatory Chart of Accounts contains accounts to collect sales information from Departments (Class) that potentially could sell goods or services to non-members.																		
60 Unrelated Business Income-Expense allocation:	Each Lodge should develop an expense allocation system to reduce Net Income to its lowest taxable amount. The application must be consistent and supportable in the event of an IRS Audit. The allocation plan should be well documented and approved by the management body of the Lodge. The best defense is to sell goods and services only to Members.																		
61 Wage and Hour Laws:	Wage and Hours rules are published by the US Department of Labor (Fair Labor Standards Act) and applicable State Laws. All classifications of Elks employment are subject to these Laws and Rules.																		
62 Working Capital:	Working Capital is the money you have available to operate the Lodge activities at the start of an Fiscal Year. Negative Working Capital means that there is insufficient money available to pay current bills and you are in danger of insolvency.																		
63 Working Capital Calculation:	<table border="0"> <tr> <td>Example:</td> <td>Current Assets</td> <td align="right">\$ 240,000.00</td> </tr> <tr> <td></td> <td>Plus long-term investments</td> <td align="right">50,000.00</td> </tr> <tr> <td></td> <td>Less current liabilities</td> <td align="right">(95,000.00)</td> </tr> <tr> <td></td> <td>Less other deferred income</td> <td align="right">(5,000.00)</td> </tr> <tr> <td></td> <td>Less all restricted funds</td> <td align="right">(125,000.00)</td> </tr> <tr> <td></td> <td>Working capital</td> <td align="right">\$ 65,000.00</td> </tr> </table>	Example:	Current Assets	\$ 240,000.00		Plus long-term investments	50,000.00		Less current liabilities	(95,000.00)		Less other deferred income	(5,000.00)		Less all restricted funds	(125,000.00)		Working capital	\$ 65,000.00
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**GRAND LODGE
A & A
COMMITTEE**



Elks Care — Elks Share