

# Section 700: Financial Processes

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## 701 Introduction

The 4-H Youth Development Program (4-H YDP) is a major educational effort that is central to the mission of the University of California Cooperative Extension (UCCE) system. This means that the University of California, Division of Agriculture and Natural Resources, has overall responsibility for development of the 4-H YDP in California and its efficiency and effectiveness. Funds for support of 4-H YDP work come from the United States Department of Agriculture, the University of California, the California 4-H Foundation, private donations, and from various other sources.

Volunteer Management Organizations (VMOs), when authorized by the 4-H YDP charter, are granted certain privileges and responsibilities related to financial activities. UCCE expects VMOs to raise and manage all 4-H YDP funds in accordance with generally accepted accounting principles and within the policies and procedures specified in this section.

VMOs are authorized by the 4-H YDP charter to carry out a program of youth activities using the 4-H name and emblem. This authorization also gives them the authority to organize, account, and manage the operational and fiscal concerns of the county 4-H YDP programs, projects, and units under their jurisdiction. This policy extends to funds generated in the name of 4-H by the volunteers, parents, and members of any VMO or 4-H YDP unit.

Authorization to use the 4-H YDP name and emblem is the responsibility of the state 4-H YDP Director, working in cooperation with each Regional Director, County Director, or designee. The County Director is responsible for authorizing the use of the 4-H YDP name and emblem within her or his jurisdiction.

The overview in Section 700 is organized to follow the 4-H YDP unit annual treasurer responsibilities. Section 702 provides a summary of the responsibilities for 4-H YDP staff and volunteer treasurers.

### **The Concept of Internal Controls**

A successful organization must have an "internal control system" to coincide with privileges and responsibilities. This concept is recognized by all enterprises, both public and private, as the framework for good management. An internal control system consists of the policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met. Internal accounting controls are established to ensure that only authorized transactions are processed and recorded, to allow for the preparation of appropriate financial statements, and to ensure that access to, and use of, assets is appropriate. Administrative controls provide the environment in which accounting procedures occur. This environment is characterized by three major factors:

1. Awareness: Communication of what is expected.
2. Attitude: Incentive to exercise control.
3. Discipline: Assurance that activities are controlled.

The internal control system set forth in Section 700 is designed to help 4-H YDP staff and volunteers create an appropriate control environment and a system of sound accounting procedures for the financial operations of all California 4-H YDP activities. The objective is to provide a framework of internal controls for 4-H YDP activities that gives reasonable assurance regarding the following:

1. Accomplishment of established 4-H YDP program goals and objectives.
2. Efficient and effective use of 4-H YDP resources.
3. Safeguarding of all 4-H YDP assets.
4. Reliability and integrity of 4-H YDP financial reports and other information.
5. Compliance with all policies, plans, procedures, laws, and regulations applicable to 4-H YDP activities and programs.

In general, reasonable assurance that the objectives of the internal control system will be achieved depends on the competence and integrity of volunteers and staff, the independence of their assigned functions, their understanding of what is required of them, and the policies and procedures to be followed. The overall effectiveness of the system also depends on having an adequate number of staff and volunteers to do the work at each organizational level and office/location.

## **702 Overview**

The purpose of this section is to describe the roles and responsibilities of the staff and volunteers involved in managing funds for 4HYDP VMOs and units. VMO is the 4HYDP term used to refer to all volunteer councils and program management boards within the 4-H YDP. The following is a summary of responsibilities that will be described in more detail at the noted references. (See also the separate checklists for 4-H YDP staff and volunteer treasurer.)

### **Summary of 4-H YDP Staff Responsibilities**

#### **Planning and Fundraising**

1. Review and approve 4-H VMO and unit budgets, including proposed fundraising activities, annually (Page 8).
2. Authorize 4-H YDP VMOs and units to raise funds for educational or informational purposes (Page 9).

#### **Financial Processing Procedures**

1. Maintain adequate oversight of the 4-H VMOs and units (Page 3, 10).
2. Work with volunteers to create an atmosphere of internal controls (Page 4, 6).
3. Ensure appropriate training for the officers of VMOs and unit volunteers and member officers in the policies, procedures, and financial principles appropriate to 4-H YDP (Page 6, 10).

4. Determine that all 4-H YDP units have processes in place to adequately manage their finances (Page 10).
5. Approve bank accounts and maintain a record of signatories and account numbers (Page 14).
6. Be a signatory on designated bank accounts (Page 6, 14).
7. Maintain a list of IRS numbers of all 4-H YDP units (Page 6, 16).

### **Reporting and Completion**

1. Determine which units, in addition to the VMO, will require an independent individual to reconcile the bank statement (Page 17).
2. Receive financial statements and inventory reports from all units by September 30 (Page 17, 18).
3. File a summary report of finances and inventory items in excess of \$1,500 to the Statewide 4-H YDP office by November 30 (Page 18).
4. Monitor to ensure that 4-H YDP units are filing their appropriate tax reports (Page 18,19).
5. Ask for an accounting of assets and expenditures at any time, including requiring an audit by a CPA firm, if deemed necessary (Page 20).
6. Receive copies of completed audits of all units by September 30 (Page 20).

### **Summary of Volunteer Treasurer Responsibilities**

#### **Planning and Fundraising**

1. Provide 4H YDP staff with an annual budget, including proposed fundraising activities (Page 8).
2. Comply with requirements stated for gifts and other contributions (Page 11).

#### **Financial Processing Procedures**

1. Manage cash receipts responsibly (Page 13).
2. Maintain adequate books and records to manage and report unit finances (Pages 14, 15).
3. Report theft or other financial abuse to the County Director immediately upon discovery (Page 16).
4. Make disbursements in accordance with established policy and the approved budget from an established 4-H YDP VMO or unit checking account (Page 16).

5. Reconcile bank accounts and report monthly to the 4-H YDP VMOs or units (Page 17).

### **Reporting and Completion**

1. Prepare annual financial statements to be audited by a peer committee or independent auditor (Page 17).
2. Prepare an inventory report for all assets worth, or purchased for, \$1,500 or more (Page 18).
3. File an IRS 990 when receipts exceed \$25,000. Prepare other reports as needed (Page 19).
4. Perform independent peer reviews of all units annually and forward copies of the results to the County Director by September 30 of each year. (Page 21).

### **702.1 Staff Responsibilities**

The complexity of 4-H YDP requires clarification of the responsibilities that 4-H YDP staff, VMOs, and units have when handling funds that are in any way related to the 4-H YDP. Staff includes UCCE County Directors, 4-H YDP staff and county employees responsible for 4-H YDP.

4-H YDP staff is responsible for creating an environment that encourages proper internal controls. Therefore, staff must be provided with adequate information by the volunteers. The following is a summary of responsibilities that is described in more detail at the noted references. Staff responsibilities include:

1. Training volunteers.

The 4-H YDP staff is responsible for training the officers of VMOs and unit volunteers and officers in the policies, procedures, and 4-H YDP financial principals appropriate to 4-H YDP operations. At a minimum, trainings must be conducted annually and attendance will be required in order to participate in the program.

2. Maintaining copies of:
  - a. Annual budgets, including proposed fundraising activities for the VMO and each unit
  - b. Tax ID numbers
  - c. Bank accounts and their signatories
  - d. Annual financial statements from each unit
  - e. Annual audit and/or peer review reports.
3. Being signatories on all VMO accounts (regardless of balance) and on all unit accounts with combined totals at or exceeding \$1,500.
4. Approving additional checking accounts.

## 702.2 Volunteer Treasurer Responsibilities

VMOs are accountable to the University and are obligated to follow the policies and procedures established by UCCE to document financial activity in accordance with laws and regulations. VMOs must demonstrate an ability to handle funds properly. The administration of 4-H YDP, VMOs, units, and supporting auxiliary groups is to be in accordance with the group's constitution, bylaws, or other enabling documents and is to be controlled by a duly constituted governing body.

The VMO or unit treasurer has the primary responsibility of handling the organization's funds. Failure to comply with these policies will result in withdrawal of the VMO's charter and disbanding of the VMO or unit. With the exception of bank statements, the county UCCE office will be the legal mailing address for all county VMOs.

The accounting procedures outlined here are generally applicable to all 4-H YDP VMOs and units. All individual 4-H YDP units operate under the authority and jurisdiction of their respective county VMO. Additional or customized reporting procedures may be established by a county VMO for the 4-H YDP units under its jurisdiction, as approved by the UCCE County Director or designee.

The VMO or unit treasurer is responsible for:

1. Authorizing the establishment of one checking and one savings account for use by a 4-H YDP VMO or unit. Additional accounts require special approval from the UCCE County Director.
2. Keeping accurate financial record, copies of invoices, bills, etc. relating to the funds and property of the VMO or unit and accounting fully for all receipts and expenditures.
3. Receiving, recording, and depositing all funds in a regulated account established for the particular VMO or unit bank or similar financial institution.
4. Paying bills or making other authorized expenditures appropriated in the budget or otherwise approved by the unit leadership.
5. Furnishing annual financial reports at year-end and at such times as required by the VMO and/or the UCCE County Director. All VMOs and units authorized to use the 4-H name and emblem within a county and/or state are required to prepare an annual financial statement which includes details on income and expenditures. Financial reports should include a balance sheet, a statement of revenues and expenses (income statement), and a list of tax identification numbers used in the county VMO system or program.
6. Acting as custodian of all funds and personal property of the VMO or unit and keeping a current list of all such property. The VMO unit secretary or other designated person can also carry out this function.

7. Preparing all financial records for an annual audit or peer review, and participating periodically as a peer review team member during the financial review of neighboring counties in accordance with the requirements of Section 705, Reporting and Completion. The accounting records shall contain sufficient information so as to produce a clear audit trail.
8. Preparing and filing all reports required by federal, state, and local governmental agencies, including the Internal Revenue Service, California State Franchise Tax Board, State Attorney General, and the State Board of Equalization, where and when applicable.
9. Participating in annual training of VMO and unit treasurers. Such training should be designed to teach 4-H YDP youth treasurers and other youth officers how to assume responsibility for preparation of budgets, for raising funds, and for maintaining their individual 4-H YDP unit accounting records.

## **703 Planning and Fundraising**

The purpose of this section is to describe the responsibilities and procedures related to planning and fundraising.

### **703.1 Budget**

All 4-H YDP VMOs and units will prepare an annual program budget to establish allocation of financial resources to fulfill program needs.

Budget management is a primary responsibility of VMO and 4-H YDP unit officers. Thus, officers are responsible for ensuring that members are kept abreast of the budget targets as compared to the actual expenditures. If there are deviations from the planned budget, officers are obligated to inform the members to ensure that there is full agreement, support, and approval on any changes.

The method of fund raising and intended use of funds must be included in the annual budget proposal, and reviewed and approved by the UCCE County Director or designee. Raising funds with no specific 4-H YDP program or purpose is not allowed.

### **703.2 Income/Fund Raising**

The classification of income should follow the general categories of income typically used by non-profit organizations. For example, IRS Form 990 contains such classifications. If needed, subcategories can be created to better identify source of funds (See *Appendix G*).

#### **703.2 A Authorization for Fund Raising**

Regional and County Directors are responsible for reviewing proposed fundraising activities and assuring their compliance with applicable policies (See *Appendix A: 4-H Name and Emblem Guidelines, May 1999*).

Chartered VMOs and units are authorized to use the 4-H name and emblem for educational or informational uses that are in the best interest of 4-H YDP. Thus, they are responsible for helping to plan and implement an educational program in their community. VMOs and units have the authority to receive private money to support the operating expenses of the 4-H YDP. All funds for these purposes, regardless of the source, should be accurately accounted for and managed.

Volunteer organizations may raise private funds in order to support a wide variety of programs. Corporate and individual donors are often more receptive to people they know who volunteer in their community. Rarely is money given to groups that do not take, at a minimum, the following steps:

1. Create a viable plan for the use of the funds.
2. Build a reputation within the community for organizational and fiscal responsibility, and
3. Ask for donations of money. In general, donated funds are classified as gifts when (a) they are given with the intent to make a charitable contribution; (b) the donor does not impose contractual requirements; and (c) the funds are awarded irrevocably.

## **703.2 B Fundraising Guidelines**

All methods of fund raising by VMOs and units must comply with the general fund development guidelines of the University of California, which are given below. The regulations apply to those activities involving the solicitation and use of goods and services for 4-H YDP, as well as the solicitation of funds.

1. Any raising or use of funds by a VMO or unit must be to further the research and education goals of 4-H YDP.
2. Any VMO or unit intending to raise more than \$100 in a fund raising activity that is not in the approved proposed budget must file a letter of intent with the County Director or designee, indicating the type of activity and purpose for which the funds are to be raised.
3. All fund raising activities in support of the 4-H YDP must comply with the following:

- a. Federal law regarding the use of the 4-H name applies in these activities. (See *Appendix G, Public Law 772.*) Pertinent federal rules and regulations governing the use of the 4-H name and emblem published in the Federal Register, March 17, 1987, must also be followed.
- b. Public, non-profit agencies, such as the University of California 4-H YDP, are not to conduct lotteries, drawings, raffles, bingo, and other games of chance (See *Appendix G: Lotteries.*)

### **703.2 C Fund Sources**

The following criteria should be used in determining the acceptance and administration of funds. For more information, refer to the *ANR Administrative Handbook* (<http://danr.ucop.edu/admin-handbook/>).

1. Federal and state funds allocated by the U. S. Department of Agriculture (USDA) and the State of California to support the 4-H YDP will be managed by the University, in accordance with state and federal policies.
2. The Board of Supervisors in each cooperating county is granted authority by the state legislature to maintain and operate Cooperative Extension work in that county. All expenditures are made in accordance with county fiscal procedures.
3. Contracts and grants for external funds supporting action, training, demonstration, or applied research projects in which a UCCE Advisor is the principal investigator or project director must be processed through the ANR Contracts and Grants Coordinator and administered by the Regional Director, regardless of the source.
4. The VMO or each separate unit may manage other funds, such as proceeds from sales or donations. The VMO or unit must manage the funds in accordance with University policies and with the VMO's or unit's constitution and bylaws.
5. The funds for community service projects undertaken directly by a VMO or unit may be managed by the VMO or by the youth of the unit. VMOs or units should be aware that all funds received from any source must be accounted for as public funds.

### **703.2 D Gift and Endowment Funds**

The VMO or unit may receive funds by virtue of its own fundraising efforts from individuals, organizations, or businesses. Funds donated directly to a county VMO or unit by private individuals, groups,

agencies, or foundations for 4-H YDP work are to be managed by the VMO or unit. Such funds are to be managed in accordance with the procedures outlined in this Handbook and must be reported in the VMO or unit's annual financial report.

Any proposals of significant gifts (\$1,000 or more), gifts given with restrictions, gifts of real estate, or gifts proposed as endowments must be reviewed and approved prior to acceptance by the County Director in coordination with the ANR Assistant Vice President – Development Services and the ANR Contracts and Grants Coordinator.

Due to the cost of fund administration and the ongoing requirements for strict accountability, donors should be advised that gifts of real estate and gifts proposed as endowments must be given directly to The Regents of the University of California, where appropriate accounting controls and management procedures already exist.

An endowment fund is a fund whose donor has stipulated that the fund principal must remain inviolate and that only the income from the donor's gift may be expended. The Office of the President uses a guideline of \$10,000 as a minimum to establish a new endowment. Gifts and endowments given directly to The Regents of the University of California by private individuals, groups, agencies, or foundations for 4-H YDP work are managed, documented, and reported as University funds in accordance with established University policies and procedures.

Both gift and endowment funds may be earmarked for specific purposes, such as a computer project, a guide dog project, or 4-H YDP scholarships. However, regardless of its intended purpose, Cooperative Extension will manage all funds in accordance with University policies and procedures. (See *ANR Administrative Handbook* <http://danr.ucop.edu/admin-handbook/>.)

### **703.2 E Management of Excess Funds**

The goal of fundraising should be to increase the total amount of funds available for 4-H YDP activities. The retention of excess funds by a 4-H YDP VMO or unit is strongly discouraged. Any such investments should be carefully considered and approved by the VMO. Investments in stocks and bonds do not protect the principal and should be avoided. A professional financial advisor (e.g., banker or accountant) should be consulted for advice on investing funds. It also may be possible, and even desirable, to use the investment capability of the University's Office of the Treasurer.

### **703.2 F Animals as Gifts in the 4-H YDP Program**

The 4-H YDP does not accept animals as gifts or donations. VMOs, units, projects, and county UCCE offices cannot accept title or ownership of animals. Any such gifts should be made directly to individuals.

### **703.2 G Other Gifts**

Certain types of gifts, such as vehicles and real property, may not be appropriate for a 4-H YDP unit. In these cases, contact the 4-H YDP staff for advice. The UCCE County Director should contact and involve the Regional Director and statewide 4-H YDP Director or other appropriate UC/ANR personnel, as appropriate.

### **703.2 H Membership Charges**

There can be no dues or member charges for program participants; however, insurance costs and other charges associated with to program participation may be required to defer the costs for specific programs or activities.

## 704 Financial Processing Procedures

Officers of the county VMO and adult volunteers of county units are accountable for all funds raised by them or in their name. Accountability includes responsibility for how funds are used and protected from misappropriation. This includes monitoring volunteer and youth treasurers' responsibilities.

### 704.1 Handling Money

The treasurer has the responsibility for recording, disbursing, depositing, and properly accounting for and classifying the VMO or unit funds. Individual accountability for cash must be maintained throughout all cashing operations. 4-H YDP funds must not be combined with other funds, such as private, business, or other institutional funds.

1. Receiving Money
  - a. The unit must have a record for all money received.
  - b. A receipt should be issued for each individual collection of cash. Pre-numbered receipts are preferred.
  - c. In some cases, it might not be practical to issue a receipt. In these cases, collection of funds must be documented by a Statement of Cash Collections to be filled out daily. The statement should indicate the name of the individual who collected the money, the total money collected (attach cash register tape), and the name of the banking institution where funds will be deposited. (See *Appendix G: Statement of Cash Collections*.) Two individuals, one being an unrelated adult, must sign statements of Cash Collections. The receipts must be turned over to the treasurer as soon as possible.
2. Depositing Money
  - a. If practical, to ensure the safe handling of currency and to protect the individuals handling cash, funds should be deposited daily or turned over each day to the treasurer.
  - b. Checks should be made out to the particular VMO or unit and not to an individual. Checks and money orders must be endorsed by someone authorized to do so within the unit.
  - c. The unit treasurer should deposit all funds in the unit's account. Treasurers are required to deposit funds received within one week and are encouraged to make daily deposits. If, under certain circumstances, deposits cannot be made daily, a receipt must be written and kept in a secure place overnight.
  - d. When a Statement of Cash Collections is used, the deposit receipt should be attached to the statement of cash collections.

- e. A deposit receipt must be obtained from the bank and filed with the checkbook. A deposit entry should be made in the checkbook or passbook. The date, amount, and source of income for each individual amount received must be entered in the ledger.
- f. Volunteers or youth members may accept currency, checks, money orders, cashier's checks, etc., for 4-H YDP administration, programs, events, and activities.

## **704.2 Bank Accounts**

A chartered VMO is responsible for authorizing the establishment of one checking and one savings account for use by each 4-H YDP unit. Additional accounts require special approval from the UCCE County Director.

1. Each 4-H YDP unit that manages cash is required to establish its own separate savings and/or checking account at a financial institution. Although many banks will no longer allow an account to require two signatures, all 4-H YDP accounts should be set up so that two signatures are required to expend or withdraw funds. 4-H YDP policy requires that two unrelated individuals, of whom one can be the youth member and the other an adult volunteer, sign any checks. Few banks will allow minors to be the only signatory on bank accounts. However, a youth can still be the second signature on a check.
2. The signatures should be from unrelated authorized individuals. Authorization to establish such a savings or checking account is obtained from the UCCE County Director or designated 4HYDP staff, upon approval of the unit's charter.
3. A UCCE County Director or a 4-H YDP staff person who is a University employee must be one of the signatories on all VMO accounts and other unit accounts with year-end balances (June 30) in excess of \$1,500. This balance will be the combined totals of all accounts held by the unit. 4-H YDP staff, if deemed appropriate, may become signatory on any 4-H YDP unit account, regardless of balance total.
4. Units should use a checkbook for paying bills. The checkbook register is used for recording the check number, date, amount of the check, and item or purpose for which the check is drawn, as well as serving as a place for noting deposits. This helps identify the check with the bill paid. The original bill is kept in the treasurer's files as evidence in support of payment. The canceled check, properly inscribed, can serve as a receipt.
5. Banks use automated deposit techniques that produce a computer-generated deposit receipt. Those receipts must be kept to document the deposit, until it can be verified that the correct amount shows up on the next bank statement.

### **704.3 Ledgers**

The ledgers will allow separate entries for receipts and disbursements. Entries should be made in the calendar order in which they occur. Headings for funds should be established, as appropriate, in order to separately account for funds from different sources, and for expenses by different categories or for different purposes. Units with procedures in conformance with the *4-H Treasurer's Manual* will meet these requirements.

### **704.4 Other Necessary and Supporting Records**

Other documentation to be retained on file include bills, receipts, canceled checks, and written authorization for disbursement not covered in VMO approved budgets, or minutes of meetings in which budget changes or special non-budgeted items were approved.

### **704.5 Federal Employee Identification Numbers**

The county VMO and the units within the county must have their own employee identification number (EIN) (IRS Form SS4.f). A 4-H YDP staff member maintains a record of all club Tax ID numbers. The UCCE County Director and VMO treasurer must be notified when new EINs are used. No account held in the name of 4-H YDP should use the name of a 4-H YDP member or volunteer, nor should a social security number of an individual be used in lieu of the appropriate tax identification number. All units must use the UC tax exemption number **2704** in addition to their own EIN (See *Appendix G: Form SS4.*)

### **704.6 Petty Cash Fund**

On rare occasions, a petty cash fund may be needed for miscellaneous items. However, the use of petty cash is not encouraged and it should not be used as a substitute for sound planning and budgeting. Petty cash should be reconciled, at a minimum, on a monthly basis. In petty cash allotments, the cash plus the cash receipts for expenditures should equal the initial authorized amount. All petty cash allotments should be entered in the general ledger as petty cash along with the person's name to which the cash is issued.

### **704.7 Change Funds**

A change fund may be necessary to support substantial cash sales activities. The purpose of a change fund is to provide a reserve of small denomination currency and coins to make change. The change fund is not a petty cash fund and is not to be used to pay expenses. A change fund is established by writing a check for the balance to be kept in the change fund and obtaining the equivalent small denomination currency and coins.

### **704.8 Cash Advances**

In general, cash advances are not allowed from the VMO or unit checking or savings account. On rare occasions, it may be necessary to provide cash in advance of an expense being incurred. The advance must be approved for a specific purpose and the amount of the advance should be no greater than anticipated costs. The recipient of the advance must provide receipts for expenses incurred and return that portion of the advance not used. The persons approving the advance and signing the check must be different from the person receiving the advance.

### **704.9 Theft or Mismanagement of Funds**

If 4-H YDP funds are stolen or mismanaged or there is suspicion of other financial abuse, the incident must be reported immediately upon discovery to the UCCE County Director or designee.

### **704.10 Handling Funds for Project Groups**

Project groups within a 4-H YDP unit may raise funds for special events, such as field days, project trips, or community service activities. It may be desirable to keep separate subsidiary records of such special events, but final accountability rests with the 4-H YDP unit treasurer. All funds should be deposited in the unit treasury. The treasurer should set up separate project accounts in the general ledger for each special event controlled by a project group so that separate accountability can be maintained over funds and expenditures.

### **704.11 Disbursements**

All expenditures must be made from established 4-H YDP checking accounts. Decisions concerning the disbursement of funds by a 4-H YDP unit are to be made by the youth membership of the unit.

Financial commitments and expenditures must be in accordance with the policies established in this Handbook and the approved budget of the unit. If expenses are incurred for non-budgeted items, these expenses should not be paid until after the VMO or unit formally approves the unbudgeted expenditure. For budgeted items, the treasurer should make payments only with proper documentation such as a purchase order, receipt, invoice, or other supporting documentation. All checks must bear the signatures of two unrelated persons authorized and designated as signatories by the VMO or unit.

1. All money paid out must be entered in the check register or stub when the check is written. All disbursements are to be made by check and must be substantiated by receipted bills, canceled checks, and written authorization (e.g., VMO/unit minutes, the annual approved budget, etc.).

2. Disbursements should be made only from money that has already been deposited, not from anticipated deposits or from cash in hand. Checkbook stubs must be completely filled out at the time each check is drawn or a deposit is made.
3. At a minimum, the classification of disbursements should follow the expense accounts and definitions set up in IRS Form 990. Sub-classifications can be added to provide additional detail or clarity.

## **705 Reporting and Completion**

This purpose of this section is to describe the steps involved in preparing financial reports and completing the accounting and auditing processes.

### **705.1 Financial Reports**

#### **705.1 A Bank Statements**

Volunteer treasurers are responsible for maintaining and reconciling bank statements for each account. These constitute a record of deposits, withdrawals, fees paid, and interest earned on a monthly basis.

1. The balance shown on each statement should be reconciled monthly with the balance from the financial record pages.
2. The UCCE County Director may require someone independent of the treasurer to reconcile the bank statement.

#### **705.1 B Annual Financial Statements**

An annual financial statement will be prepared by the treasurer of the VMO or unit and will be forwarded to the UCCE County Director or designee at the close of the 4-H YDP program year, but no later than September 30th.

1. Annual financial statements of VMOs should be made available to volunteers and units in the county. A copy must be kept on file in the county UCCE office for historical purposes and another copy must be sent to the Statewide 4-H YDP Director. Non-compliance with this policy will result in withdrawal of permission to use the 4-H name and emblem.
2. The 4-H YDP staff will file an annual summary report to the statewide 4-H YDP Director. It must include the total revenues raised by the program for that year and the total assets held by all 4-H YDP units, including cash and investments. The report is due in the State 4-H YDP Office by November 30 of the reporting year.

## **705.1 C Inventory Report**

An annual inventory of VMO or unit property and equipment will be made by each 4-H YDP treasurer at the close of the 4-H YDP program year and no later than September 30th, and kept on file in the county Cooperative Extension office for three years.

1. Articles purchased or disposed of during the year will be recorded or deleted on the current inventory listing, as appropriate.
2. Donated equipment will be posted on the inventory listing, showing the item received and the source of the donation and its value.
3. The VMO is responsible for reviewing its own and each unit's property and equipment inventory listing when the treasurers' annual audited financial reports are reviewed.
4. Each VMO or unit must have a written procedure for transferring funds, equipment, or other assets to the Cooperative Extension office or VMO, as appropriate, should the VMO or unit disband (See *Section 603: Business.*)
5. The 4-H YDP staff will issue a combined report to the Statewide 4-H YDP Office of all material assets with an individual purchase price or fair market value of \$1,500 or more. The report is due in the State 4-H YDP Office by November 30 of the reporting year.

## **705.2 Taxes**

VMOs and units must meet all federal, state, and local tax laws and requirements for the preparation and filing of any necessary tax returns or informational forms. Each VMO or unit must work with the 4-H YDP staff to know and understand the tax rules and apply these to the VMO or unit's specific situation. VMOs and units are responsible for assuring the UCCE County Director that they are in compliance with all applicable tax laws and related tax policies.

### **705.2 A Federal Income Tax**

The Internal Revenue Service (IRS), in a ruling letter of February 9, 1973, recognized the tax-exempt status of 4-H YDP units and affiliated 4-H YDP entities that are organized and operated under the auspices of Cooperative Extension. This guidance and oversight must be in keeping with the regulations governing the use of the 4-H name and emblem (Section 303 and Appendix A), and be in accordance with the policy statement in Chapter XI, Section 8.2, of the *Federal Administrative Handbook* for Cooperative Extension work.

The IRS has assigned a federal income tax group exemption number to 4-H YDP to be used by all 4-H YDP units and affiliated groups when filing the Annual Information Return, Form 990. This group exemption number is **2704**. This is in addition to the individual unit's EIN. The only exceptions are those 4-H YDP units and affiliated groups that have obtained tax-exempt status on their own. Although 4-H YDP organizations are exempt from federal income taxes, they are still obligated to file the Annual Information Return or Form 990, if gross receipts in their tax year normally exceed \$25,000. The tax year for Form 990 is July 1<sup>st</sup> through June 30<sup>th</sup>. Current IRS publications covering tax-exempt status should be reviewed annually for details on reporting requirements and changes in the code. (See *Appendix F: Tax Exempt Status of 4-H YDP Organizations Authorized to Use the 4-H Name and Emblem*, revised May 1993.)

#### **705.2 B California State Income Taxes**

VMOs and units are not required to file a California Exempt Organization Annual Information Statement or Return (Form 199), since they are nonprofit exempt organizations formed to carry out 4-H YDP activities, and operate under the auspices of the University of California. There are no Franchise Tax Board reporting requirements for any VMOs or units regardless of income.

#### **705.2 C California State Sales Tax**

The sales tax responsibilities of VMOs, units, and other affiliated organizations engaged in fundraising projects, are set forth in the California Sales and Use Tax Law. The sale of food products, nonalcoholic beverages, and tangible personal property made or produced by members of these organization are exempt from state sales tax when those sales are made on an irregular or intermittent basis and the organization's profits from those sales are used exclusively in furtherance of the purposes of the organization. Sales of items not made or produced by group participants such as t-shirts, wrapping paper, mugs, stuffed animals, etc., are taxable. (See California state Board of Equalization Sales and Use Taxes: Exemptions and Exclusions, Publication 61 and Tax Tips for Nonprofit Organizations – Sales and Use Tax, Pamphlet 18, Appendix G.)

#### **705.2 D Reporting to The Attorney General**

At the discretion of the Attorney General of California, any nonprofit tax exempt organization may be required to file Form RRF-1, Periodic Report to the Attorney General of California, in accordance with Section 12586 of the California Government Code. Although Form RRF-1 is not required annually, if a VMO or unit receives Form RRF-1, it must be completed. It is only required when specifically requested by the Attorney General. Questions about RRF-1 should be addressed to the UCCE County Director. (See *Appendix G, Form RRF-1*.)

### **705.2 E Property Tax**

Any real property donated to, or purchased by, VMOs or 4-H YDP units will generally be held by the University in the name of The Regents of the University of California and, as such, is exempt from payment of property taxes. The ANR Controller and Business Services Officer, in addition to the UCCE County Director, must be consulted when VMOs or units are considering purchasing or accepting donations of real property.

Any other property (e.g., tools, equipment, trailers, etc.) owned by VMOs or 4-H YDP units may be subject to property tax. Any exemptions must be obtained through the local taxing authority (county tax assessor).

### **705.3 Review Responsibilities**

One of the key elements of any system of internal controls is the provision for an examination and audit of financial statements, fund balances, assets, and the established accounting system. This examination should be independent of the VMO or unit treasurer or others involved with the relevant finances. Independence ensures the accuracy of information, the existence of assets, and the reliability of the financial data.

It is desirable to have a peer review committee that is appointed by the VMO president to oversee the conducting of audits for all units that are under the jurisdiction of the county VMO. (See *Appendix G: Peer Review Audit Guide*.)

### **705.3 A Audit Requirements for VMOs**

Each VMO is responsible for having its financial statements and related books and records audited or reviewed on an annual basis after the close of the fiscal year. A copy of the VMO's audit or peer review report must be on file at the local UCCE office by September 30<sup>th</sup> of the program year.

Under certain circumstances, a certified public accountant (CPA) must conduct an audit of VMO financial statements and related books and records. The following circumstances may indicate the need for this type of annual audit.

1. There are suspected irregularities related to financial activities.
2. The UCCE County Director or VMO deems it desirable to have an independent audit by a certified public accountant of a treasurer's annual financial statements, fund balances, any other books or records, and/or the accounting system.
3. The treasurer's duties are transferred from one individual to another within the VMO.

**705.3 B Peer Reviews for VMOs**

An internal peer review of the financial report and related books must be conducted by the county VMO annually. The peer review team will be composed of at least three volunteers from the county. The internal peer review team should not include the VMO treasurer, anyone related to the treasurer, or any volunteer involved in the financial matters of the VMO, such as fundraising, bookkeeping, or holding signature authority.

**705.3 C Peer Reviews for other 4-H YDP Units**

Unit peer reviews, (or audits, if appropriate) must be filed with the county UCCEn office by September 30<sup>th</sup> of each program year.