

POST OPERATIONS MANUAL

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THE AMERICAN LEGION
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INTRODUCTION

This Post Operations Manual is divided into three sections. These sections should be used in conjunction with each other, since they are all part of good management.

The first section concerns itself with the planning of the physical structure of the facilities needed to accommodate an active, growing American Legion Post.

The second section concerns itself with the social part of an American Legion Post-the lounge. There are sections on government, duties of a manager, labor costs, beverage control, food service and other points of lounge operation.

The third section serves as a guide to the utilization of proven principles of financial accounting. This accounting serves the purpose of informing the members, officers, trustees, house committee and managers of the Post the results of the Post home operation and financial condition.

Many Posts have formed separate entities, such as Corporations, Building Associations, etc. Of course, it is necessary to maintain a separate set of books on each of these entities. A Consolidated Balance Sheet should be prepared at the end of each Post's fiscal year, including all entities controlled by the Post.

This Post Operations Manual is intended to be used as a guide to set up an accounting procedure for the smallest to the largest Post. In a small, newly organized Post, this initial duty might be assumed by the Post Adjutant.

In a larger Post operation the duty will normally be assumed by the Finance Officer working with the full time Manager.

Beyond that, however, it is hoped that this manual will be used by the House Committee, Board of Trustees and the elected officers of the Post in the planning of their operations.

Recognizing the importance of lounge operations and efficient business management as important aspects of total Post activities has made it necessary to provide certain guides for the use of those members confronted with the challenging duties. This manual is presented to provide assistance and is not in itself an answer nor an end to all the problems that will confront those chosen to perform the tasks and duties of lounge management.

PLANNING THE FACILITIES

No single project undertaken by an American Legion Post has greater importance to its future or to its relationship with its community than its decision to build or acquire an adequate activity and service center. Second only to building a new housing facility is the improvement and/or expansion of an existing building in order to serve better the needs of its membership and its community.

VALUE TO POST. The value to a Post in having an adequate building to house its activity and service center can go beyond any measurement in dollars and cents. Such a structure signifies to the community the stability of the organization and expresses the confidence of the members of the organization in the future of their community and their Post.

SPECIFIC COMMUNITY NEEDS. On a continuing basis each Post should analyze carefully the services its facilities provide to the community. Those conducting such an analysis should also take a long look at any specific needs of the community, which might be met by the Post through the erection of a new building or the expansion and improvement of an existing structure.

FACILITY HAS MANY USES. Scratch the surface of a Legion Post that's alive and dynamic in its service programs, and chances are good that the Post has physical facilities, which are used for other than strictly Legion activities. Such activity and service centers may provide meeting facilities for the community, Boy Scouts, teen parties and dances, recreation programs for senior citizens, banquet facilities for community organizations, offices for Legion Service Officers, storage for community flags, and a myriad of other functional uses.

LIVING MEMORIALS. While the properties of American Legion Posts are used with an eye to the future, they are also dedicated to the memory of those who have paid the supreme sacrifice for the preservation of our freedom. These buildings become "living memorials" to the heroic dead and, at the same time, provide community centers with meeting and dining areas, recreation rooms, and all other facilities needed for wholesome community development.

WHY VETERANS JOIN. An estimated two-thirds of the members of The American Legion joined because of real or expected comradeship, fun, or social activities. As more leisure time becomes a reality, there will be an even greater service provided by that organization which has the facilities for its membership and/or the community to use for social and recreational outlets.

ASSET OR LIABILITY. A well-operated American Legion clubroom or activity center can be a valuable asset, just as a poorly operated one can be a liability for everyone and can harm both the name and the important work of the organization. This is especially true if there is a bar included in the facilities. It's up to the individual Post to decide whether it is going to have a building, and, if it does have one, whether there will be a bar. But if the Post has either or both, they should be good ones.

STANDARDS

Here are some standards by which a Post can measure its own operations or determine if it should enter into a building program:

1. The American Legion Post activity center should not be in competition with any other business in the community. However, where state tax structures or regulations have removed whatever tax breaks The American Legion may have enjoyed the Post must compete to live. This is another reason for looking to a multi-use facility. Most communities do not have sufficient banquet or party facilities to fill current demands. Great care must be given to the Post tax-exempt status. The operation of a business venture for profit may be necessary but seek competent advice.
2. The Post's activity center should be a place where members come to work for The American Legion, as well as a pleasant place of comradeship and relaxation.
3. It should be a place where member's spouses, clergymen, teachers, and, in fact, anyone who has a right to use it will never feel embarrassed or uncomfortable.
4. It goes without saying that every American Legion facility should lean over backward to abide by all laws regulating the operation of private clubs. If local public officials are inclined to overlook a few things in favor of private clubs, don't take advantage of the situation. Remind your members that one of the basic purposes of The American Legion is to maintain law and order. Even if officials should be willing to overlook infractions, you can be sure that the public, as well as many of your own members, won't be.
5. If the Post's activity center includes a bar, it should always be closed during Post meetings. There is no exception to this flat rule. Keep the bar closed during meetings and, obviously, do not permit beverages of any kind to be served or drunk during the meeting.
6. While The American Legion Post is not a commercial enterprise, activity centers must be operated on a business basis. There must be regular and complete audits. If the Post doesn't have a member willing and able to do this, hire someone. The same goes for all necessary tax returns, annual corporation reports, and any other papers the Post is required to prepare and submit to local, state, and federal government.

See that those who handle funds are bonded.

Carry sufficient insurance to protect your Post's investment and any employees - fire, theft, liability, workmen's compensation, etc. - and don't let a policy expire. If your Post has a food or beverage operation, it should be self-supporting and normally should give financial support to the Post. It should never be a drain on other funds of the Post.

7. Be extremely cautious about any arrangements, however no matter how good they may look on the surface, which take final control of the activity center away from the Post and its regularly elected officials. If it is an American Legion facility, keep it under the control of The American Legion.
8. If the Post has a bar, remember that there are a lot of people who prefer coffee or soft drinks.

PLANNING CRITERIA

Although there are many fine American Legion Posts which do not have a Post home or activity center, rising membership and the influx of new, young members have generated new interest in permanent Legion facilities.

The establishment of a Post activity center is also essential in helping The American Legion fulfill a basic obligation of providing every veteran an attractive, active Post located near where he lives. If The American Legion is to fulfill this need, thousands of new Posts, properly located, must be organized.

Valuable guidelines and suggestions will be found in the following for any Post, which is involved in any way with a Legion building or hopes to be in the future. The suggestions are adapted from an outline compiled by the Department of Kansas.

LOCATION

1. Easily accessible to Post membership.

The American Legion is aware that it has an obligation to provide every veteran with a Post convenient to where he lives and implied in that obligation is that this will be a Post home or activity center of which the members are proud and which is attractive to the majority of veterans in that area.

2. Location served by hard-surfaced roads or major highway.

In most big cities interstate belt routes are already being used. Areas near major exchanges or exits lend themselves to being most suitable for a Post location. Frequently these interstates are used by the majority of citizens in a given area in returning from work and a Post home located near that exit and near their home provides an ideal stopping place where no further high speed driving is required

3. Location in appropriate section of community.

Every major metropolitan area is actually composed of a large number of identifiable areas or neighborhoods that closely resemble small or medium sized communities. The veterans of each identifiable neighborhood are entitled to a Post, and every effort should be made to fill this obligation if a representative number are to associate themselves with The American Legion as their chosen vehicle for community service and recreation.

4. Good neighborhood desirable. Surrounding businesses or buildings should be the best.

Good examples of Posts using a neighborhood location to make it most effective would have to be those Posts located near a large municipal sport stadium where game parties are a way of life.

TYPE OF CONSTRUCTION

1. Brick; excellent, but expensive
2. Concrete or masonry.
3. Pre-fab steel probably offers best construction for the money.
4. Wood or frame is less desirable and, at present, expensive.
5. Old houses or other types of old buildings generally do not make good Post activity centers.
6. One-story construction is recommended.
7. Many companies, particularly pre-fab steel companies, have suggested floor plans that lend themselves very well to the type of operation a Post desires.

EXTERIOR

1. Parking areas should be adequate for the maximum number of cars to be anticipated by the buildings use. Area should be black-top or other hard surface and well lighted.
2. Two or more entrances are necessary; plan separate entrances to club or lounge area and one to main part of building. Public should be able to use part of Post facility without disrupting other activities.
3. Building should be painted attractively and well identified as The American Legion. The use of the word "club" is discouraged.
4. Plans should include attractive landscaping.

INTERIOR

1. Arrange rooms for maximum versatility. One large room is a must. Arrange interior for several activities, which can be going on at the same time.
2. Design the interior big enough to accommodate your membership – plus.
3. Design should include expansion possibilities.
4. Good meeting facilities necessary.
5. Furniture should be colorful and serviceable.
6. Dining and lounge areas should be carpeted.
7. A large Post should consider two bars – one for stags and one for more formal use.
8. Lighting should be flexible – soft or bright, depending on the need.
9. Cleanliness is a must.
10. Restrooms must be adequate, clean, and attractive.
11. Kitchen should be adequately equipped and located to serve several areas of the building.
12. Dividers should be located to permit maximum use of all areas.
13. Heating and air-conditioning facilities must be adequate for maximum crowds and most extreme weather conditions for geographical areas.

FINANCING AND RELATED ADMINISTRATION SUGGESTIONS

1. Posts which have an indebtedness are usually active, lively and growing Posts. They generally are worthy contributors to their communities.
2. A Post of The American Legion seldom loses its building because of inability to meet mortgage requirements.
3. Financing methods vary. Bank borrowing is most common. The amount of down payment or collateral can vary from time to time or from location to location.

When a Post facility is being planned, find time to sit down with local financial experts and learn from them what will be required.

The question is often asked, "Does Department or National help finance Posts?" The answer is "no" for some very valid reasons – the primary one being that neither Department nor National would have the necessary supervision to protect their investment.

The initial problem is how to raise sufficient funds so that ordinary financing through banks or other financial institutions can be used. A favorite method is to issue non-interest bearing bonds, usually in hundred dollar denominations, and sell these to the members. The bonds can be retired, as the Post is able. Other Posts have obtained the initial funding through private donations or contributions from members and many new Posts start with rented quarters. Rented quarters do have one advantage – the Post is much more certain what type of building is desired after having operated with rented space.

4. Posts with adequate facilities and good, wholesome, attractive operations have no problems in signing up the new members.
5. Posts should have regular activities that stimulate and encourage family participation.
6. The quality of club management is the key to success. Honesty, dedication, and imagination (in that order of importance) are the prime requisites of a club manager.
7. Every Legion member cannot boss the club manager, who must be responsible to only a few who are selected by the Post members and are responsible for the operation.
8. Anyone handling Post funds must be bonded. Books should be kept accurately and audited at least once a year. Finance reports should be made to the Post membership on a regular basis. All tax returns must be filed promptly and accurately.
9. Club room rules must be established in accordance with those set forth by the state alcoholic beverage regulatory agency.
10. A good club manager should be a good businessman. See that he receives adequate compensation for his services.
11. Except where a Post is open only for meetings or for very special occasions, do not attempt to operate with volunteer labor. There simply is not sufficient supervision to develop an efficient operation.
12. Every Post owning real estate or other substantial assets should be incorporated as a not-for-profit organization under the laws of the state. Have a competent attorney draw up your articles of incorporation.

SOCIAL QUARTERS OPERATIONS

SCOPE OF OPERATION

Lounge operations vary widely from those of a newly formed Post, or one in which the social rooms are extremely limited and so encompassed by local regulations and State laws, which confine this area to that of a self-help or limited service function, to the other extreme where large Posts and operations may extend to Country Clubs with rooms, bar service, restaurant and food service, bowling alleys, golf courses, and swimming pools. The problem of one may be no less challenging than the other, yet no single manual can spell out specific procedures, staff duties and responsibilities.

GOVERNMENT

The three most common types of government for management of the Lounge or social rooms are:

- a. House Committee
- b. Board of Trustees
- c. Post Officers and Trustees

MANAGER

The term Manager as used can be loosely defined as the Chairman of the House Committee, Chairman of the Board of Trustees, or Post Commander, depending upon the type of government, or it may refer to a professional or part-time manager to whom the ruling body delegates certain duties and responsibilities of management.

The duties of the manager are many and varied, covering selection of an adequate staff, providing internal control of funds and assets, establishing competent record keeping; and the supervision of purchasing, receiving, operation of the grills, restaurant, entertainment, and other club activities, as well as the responsibility for maintenance of equipment, sanitation, buildings and club quarters.

This may vary in a small operation from a steward or bartender with janitorial duties, to one of such magnitude that it would encompass many people from elevator operators and janitors, stewards, chefs, waitresses, accounts payable bookkeeper, secretaries and stenographers. It is important that each manager survey his staff requirements, interview and select proper personnel, provide for physical examinations and health certificates when necessary, indoctrinate them with their duties and

responsibilities, provide bonds for those handling funds, and constantly control by checks and observation the performance of these duties.

INTERNAL CONTROL OF CASH FUNDS

It has been found in some instances that adequate internal control of Lounge operations is entirely lacking. This may be due to the lack of sufficient personnel necessary to maintain full and complete control of this segment of lounge operation. Bar operations, in particular, are historically problem areas. This is due to spillage, over pouring, free drinks, and theft. All these create losses, which could be avoided by good internal control.

Each lounge should have recording cash registers, with sufficient flexibility to record all sales by product, together with a provision for other miscellaneous cash receipts. A numbered continuous tape should be locked within the cash register.

The cash registers should also be provided with additional tapes to record each sale and individual slips handed to the purchaser, together with any change necessary, immediately upon being served.

Where it is possible, someone other than the bartender should have access to the tape locked in the cash register. This tape should be checked with the cash receipts turned in by the bartender. Only a minimum of cash should be on hand to cover essential daily needs. Receipts should be deposited in the bank on a daily basis.

BEVERAGE COST CONTROL

The cost of Goods Sold in the bar should range from 30% to 40% of the Sales. This can be controlled by proper pricing, avoidance of over pouring and spillage, proper purchasing and good inventory control.

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 it is required that certain items be paid upon delivery.

Whenever it is physically possible to do so, the inventory stock room should be controlled by someone other than the bartender. This room should be kept securely locked at all times and only one person should have access to it for the purpose of storing and issuing the merchandise. Requisition in duplicate should be required for all merchandise issued.

A perpetual inventory record should be maintained. Physical inventory should be taken each month and compared with the balances shown on the inventory cards. These perpetual inventory cards can be spot checked at any time during the month, if desired.

At the end of the Post's fiscal year, in the preparation of the required annual audit, it is necessary that the "Qualified Public Accountant" conducting the examination, have available inventory records that can be easily verified, and it is desirable for him to be present during the taking of the inventory.

LABOR COSTS

Salaries and wages should range from 20% - 35% of sales. If labor costs exceed this, an immediate review should be made. Many Posts cannot afford a full-time manager as such, in which case a working manager should be employed. Perhaps a study should be made regarding the hours the bar is open during non-productive periods.

FOOD SERVICE

This phase of lounge business is probably the most controversial and potentially dangerous of all the various aspect of our operation from a profit and loss standpoint.

No Post should enter this field without a thorough survey and evaluation of many factors; for example: Is there a sufficient demand for these services? Are there enough member customers to provide a profit or breakeven, or is a loss indicated which might be partially or completely overcome by increased beverage sales? What new investment is required? Would competition with area restaurants damage the Post in any manner? Should we consider meals or short orders? Are physical facilities adequate? What are the sanitation requirements? What licensing regulations exist?

If your survey indicates that food service may be profitable or if you are one of the Posts now providing food service, an efficient operation requires planning and close supervision.

Typical food service jobs can be divided into two categories, sales and production. Sales jobs are performed by a hostess, table or counter waiter and waitresses, busboys and a cashier.

Production jobs include cooks, salad and sandwich workers, bakers, assistants and dishwashers. In a small operation the staff must perform multiple jobs. Personnel requirements vary with the physical characteristics of buildings, the number of meals served, the type of service and the size of the menu. Constant control and careful check on all food handlers are necessary to prevent loss through theft, waste, improper service, and cash accounting.

Menus must be built around the preferences of your membership and be fitted to the type of service most in demand. Business lunches may be a crowd pleasing attraction in one locale, while in another Post the demand may be for dinners with an interesting and varied menu, and in a third Post the only demand may be for soup, sandwiches and beverage.

Prices may be developed to provide a profit and yet be attractive enough to bring people into the Post.

It is important that monthly profit and loss statements be carefully prepared and studied to relate current results. Sales volumes for food service in specific hours should be tested frequently and correlated with bar sales to determine of a loss in one operation is being offset or recovered in the other through increased patronage.

FOOD COST CONTROL

Food cost should range from 35% - 45% of sales. If the food cost is higher, immediate steps should be taken to correct it.

No control system has yet been devised which, by means of the paperwork alone, will bring about the desired results. Food control is not only a clerical function, but is also calls for close attention on the part of the management and the crew to proper purchasing, receiving, storing, preparation, production costs, and merchandising. The preparation of daily cost figures through a food control system serves as a guide to those in charge and enables them to take corrective steps when the costs fluctuate too sharply and are out of line.

Because of the importance of proper purchasing, receiving, sorting, preparation and production control in every restaurant operation, a brief discussion of these functions should precede any consideration of control procedures.

Stated simply, efficient purchasing is the obtaining of the quality of merchandise desired at the most favorable price. To accomplish this it is necessary to know food in order that the grade, size, weight, pack and quality most suitable to the particular restaurant operation may be specified.

Competitive bids are advisable whenever it is possible to obtain them and, in this connection, established specifications are again important. Overbuying should be avoided and the contracting for future deliveries is not recommended.

As prefabricated or “ready foods” are becoming increasingly available and are being more and more extensively used, purchase specifications should be established for these items.

Proper checking of the quality, weight, and count of merchandise when it is delivered is probably the most frequently ignored of all the rules of good control and yet it is the most important.

Adequate scales should be available, and if it is at all possible, the authority to receipt for merchandise should be limited to one trustworthy person. It is not good business to allow anyone in the kitchen to sign for deliveries or to permit the delivery man to place his merchandise in the stock room or coolers without first checking it in. Both of these circumstances invite losses and increased costs.

The control of merchandise is much more efficient if a daily receiving record is kept on all deliveries and if requisition forms are used for all goods withdrawn from the storeroom. These records can be obtained at most hotel and restaurant stationers, who carry them in stock form.

Merchandise should be stored promptly after it is accepted. The storage area should be kept clean and orderly. Old merchandise should be moved to the front so that the “first in – first out” practice can be followed.

The temperatures of the coolers should be checked frequently to protect the contents. Locks should be provided for all storage areas.

Inventories should be taken at each month-end. A bound split-leaf inventory book, which provides for twelve consecutive inventories with a single listing of the items, is recommended and this can also be obtained in stock forms from any stationer.

Merchandise should be prepared in moderate quantities and as near to the time it is to be served as possible. Advance preparation not only results in the deterioration in the quality and appearance of the products but also in substantial direct losses.

The quantities of the various menu items to be prepared should be predetermined and recorded for the guidance of the respective kitchen employees.

This record should also be used to note the quantities, which remain unsold so as to minimize future production of these items in excess of existing demands.

LABOR COSTS

Salaries and wages should not exceed 35% of sales. This is an item of cost that can get completely out of line very quickly if it is not carefully watched. Volunteer help can be utilized.

SUGGESTED HOUSE RULES

1. The following shall be admitted:
 - a. All members of The American Legion showing current American Legion card and wife or escort.
 - b. All members of The American Legion Auxiliary showing current card and husband or escort.
 - c. All members of The Sons of The American Legion showing current card and wives or escort.
 - d. Out of town guests if accompanied by American Legion or Auxiliary member showing current card. Members are responsible for their guests and may not leave before guests.
2. Persons are expected to dress comfortably and desirably – clean clothes and clean shaven. Attire such as shorts, halters, pedal pushers, Bermudas, and sweatshirts are restricted after 6:00 pm.
3. Legionnaires and guests are kindly requested to help keep Post home clean and tidy. Please use ashtrays for matches and cigarette butts.
4. All members must remove their hats when entering Legion Post. Wearing of Legion caps is encouraged.
5. The steward or employee in charge shall have full authority to enforce house rules while on duty and may eject any member for misconduct or violation of club rules. The members may have right of appeal to Executive Committee if necessary.
6. No member shall reprimand an officer or an employee of The American Legion. Any suggestion or criticism of the lounge or Legion operation shall be submitted to the House of Executive Committee and it will be given due consideration.
7. The employees or attendants on duty may refuse service to anyone.
8. Any member removing, damaging, or destroying any property of The American Legion shall pay for damages.
9. Cashing of checks (limit), credit, or lending of lounge funds is strictly prohibited.
10. No games played anywhere except in game room.
11. Legion meetings start promptly at 8:00 pm and the lounge shall close and stay closed until meeting is adjourned.
12. There shall positively be no drinking of any kind during Legion meeting or drinks brought into the meeting room.
13. If you receive a phone call while you are at the Post you must answer.
14. No intoxicated members will be tolerated in the lounge.
15. There shall be absolutely no drinks of any kind taken from the premises at any time.
16. Positively no alcoholic drinks are to be served to minors under any circumstances.
17. Dogs or other pets will not be allowed in lounge.
18. Loud, boisterous, or profane language will not be tolerated in Post home.
19. The lounge will close not later than midnight. On special occasions the House Committee may grant extensions by advance notice.
20. All forms of amusements shall stop 15 minutes prior to the stated closing time.
21. Social quarters shall be closed Sundays, (preferably) Christmas Day, Memorial Day, Fourth of July, Labor Day, Thanksgiving Day and Election Day.

ACCOUNTING PROCEDURES SCOPE OF CHART OF ACCOUNTS

To effect some internal control over the various facilities of a Post, the Chart of Accounts has been prepared, providing for a segregation of each separate functional activity of the Post.

It provides for the segregation of assets, liabilities, revenues, and expenditures into separate groups for accounting purposes.

CASH AND ACCRUAL ACCOUNTING

There are some Posts, which use a cash accounting method. Such a system leaves much to be desired. It excludes good internal controls, proper safeguards and does not always produce accurate information.

A cash accounting method may not properly reflect the true operation of the Post. For instance, for the proper distribution of Post revenues, such as prepayment of membership dues, these revenues should be allocated to the subsequent year, rather than to the Post year in which paid, since the dues actually apply to the subsequent year. The same criticism of the cash method applies to prepaid expenses, such as insurance, which should apply to future fiscal years.

In the accrual method of accounting all revenues and expenditures are allocated to the period to which they are properly applicable. This system will properly reflect the result of operations during any given fiscal period by including only the revenue and expense applicable to that period of operation.

It is respectfully suggested that all of the Posts adopt the accrual method of accounting.

CONTINUITY IN ACCOUNTING

By maintaining some uniformity in accounting procedures in the Post, many benefits will result.

Such procedures will materially assist in the development of sound financial statements, properly reflecting the financial condition of the Post.

It is of utmost importance that either interim or annual financial and operating statements, furnished to the administrative management, should be based upon comprehensive and dependable, consistent information.

Eventually, it is hoped, that by adoption of accounting procedures being proposed, a great deal of meaningful statistical data will be forthcoming, which should prove valuable to all Posts. There are many facets in Post operations where accurate statistics will be of valuable assistance for comparative purposes.

A qualified accountant should review your present accounting system and make any necessary changes required. In the selection of any accountant, investigation should be made to select the one best suited for the job required.

Smaller Posts which do not maintain trained clerical assistance capable of handling the accounting procedure may wish to employ a public accountant to do the installation and bookkeeping. Such an arrangement could be on a monthly, semi-monthly, or quarterly basis, whichever is most suitable. It will be found that charges for such services are nominal. The final result will be of inestimable value to the Post and its officers.

A cash receipt book in duplicate should be maintained for all monies received. Cash Receipts, Disbursements and General Ledgers are necessary.

PAYROLL PROCEDURAL SUGGESTION

Where a Post provides various services and depending upon the number of employees involved, it is practical to have a separate Payroll Checking account. This account serves as a clearing account for the issuance of all payroll checks. All payrolls are thereby consolidated in a single account.

Once adopted, the details to maintain it are quite simple. Each operation would issue a single check, payable to the Payroll Account, on or about the date that payrolls are disbursed. The check would cover gross wages, and in addition thereto, the applicable payroll taxes chargeable as an expense item to such operation.

After issuance of the payroll checks, it is necessary to post the individual transactions, to a payroll record form, which, at the proper time, can be prepared, Federal Form W2 and, in those instances where local law requires it, forms showing wages paid and other pertinent information.

The above suggestion centralizes payroll procedures. It minimizes the detail work involved in maintaining separate payroll records for each operation.

BUDGET PREPARATION AND CONTROL

Each Post should adopt an annual budget. Adoption of an annual budget requires good administrative planning, and careful consideration must be given to every detail of revenue and expenditure.

As an aid in the administration of the budget, a system of informative reporting is essential if the budget program is to be of value to those in charge of the administrative affairs of the Post.

It is advisable to pattern the budget along the same lines as your Chart of Accounts. This way, comparisons are made very simple.

TAX RETURNS IMPORTANT IMPORTANT

Newly Chartered Posts

In order that your Post may be included in the blanket application for tax exemption from the payment of Federal Income Tax, filed by the National Organization with the Internal Revenue Service, it is necessary that your Post supply to the Office of The National Judge Advocate the following information:

1. Please have your Post Commander execute the letter on Page 17, authorizing the National Organization of The American Legion to include your Post in our blanket application for exemption from the payment of Federal Income Tax.
2. "Employer Identification Number" – To Secure this number, your Post Commander should execute FORM SS-4 and file it immediately with the District Director of Internal Revenue Service in your geographical area, who, in return, will furnish your Post its EMPLOYER IDENTIFICATION NUMBER. Immediately upon receipt of this number, it should be furnished to the National Judge Advocate. Form SS-4 is available from the District Director of the Internal Revenue Service in your area.

Information Return Form 990

It is immaterial that you have no employees. Federal Tax Regulations require that every subordinate unit required to file an Annual Information Return (Form 990) have an EMPLOYER IDENTIFICATION NUMBER. Failure to furnish the National Judge Advocate with an EMPLOYER IDENTIFICATION NUMBER, and the executed authorization referred to in the first paragraph of this Section, will result in your Post not being included in our tax exemption purposes.

THE AMERICAN LEGION AND TAX EXEMPT STATUS

**By: P. B. Onderdonk, Jr.
National Judge Advocate**

THE FEDERAL TAX EXEMPT STATUS of The American Legion has undergone some changes as the result of legislation signed into law.

On August 9, 1972, President Richard M. Nixon signed H. R. 11185 which became Public Law 92-418. Section I of PL 92-418 did two things:

1. It created a separate exemption category for War Veterans' Organizations and their Auxiliaries.
2. It provided that income a War Veterans' Organization receives from insuring its members and their dependents is not subject to the unrelated business income tax, to the extent the income is used or set aside for the insurance benefits or for religious, charitable, education, etc. purposes.

Prior to the enactment of PL 92-418, Section 501 (c) of the Internal Revenue Code, as amended, provided for 18 categories of organizations exempt from the payment of Federal Income Tax. The American Legion, its component Departments and Posts were excepted under Section 501(c) (4) of the Code, and were classified as "Civic Leagues or Organizations not organized for profit but operated exclusively for the promotion of Social Welfare."

New Exemption Category

PL 92-418 created a new, separate exemption category – veteran's organizations and their auxiliaries – to the list of organizations exempt from tax under Section 501 (c) of the Internal Revenue Code. The new provision – Section 501 (c) (19) was later amended in 1982 by Public Law 97-248 into the present form which defines a veterans' organization as:

"A Post or organization of past or present members of the Armed Forces of The United States, or an auxiliary unit or society of, or trust or foundation for, any such Post or organization.

"(A) organized in The United States or any of its possessions.

"(B) at least 75 percent of the members of which are past or present members of the Armed Forces of The United States and substantially all of the other members of which are individuals who are cadets or are spouses, widows, or widowers of past or present members of the Armed Forces of The United States or of cadets, and

"(C) no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Tax on Unrelated Business Income Form 990T

Prior to the enactment of the Tax Reform Act of 1969, there was no tax on the insurance activities of veterans' organizations since the unrelated business income tax did not apply to the social welfare organizations and social clubs. However, the 1969 Act extended the application of the unrelated business income tax to virtually all exempt organizations, including social welfare organizations (as The American Legion was then categorized) and social clubs.

By virtue of the Tax Reform Act of 1969, The American Legion, its component Departments and Posts, as civic leagues, are subject to the imposition of an Unrelated Business Income Tax. The term "unrelated trade or business" means any trade or business the conduct of which is not substantially related (aside from your Post's need for income or funds, or the use it makes of the profits derived) to the exercise or performance by your Post of its charitable, educational, or other functions constituting the basis for its exemption. Since various deductions may be allowed against such taxable income, the Post should consult a tax advisor knowledgeable in tax matters. This is generally a CPA or attorney.

PL 92-418 provides a special rule for veterans' organizations concerning the income they receive from providing insurance benefits for their members or the dependents of their members. This special rule excludes from the unrelated business income tax any amounts attributable to payments for life, accident, or health insurance with respect to members of veterans' organizations or their dependents to the extent these amounts are set aside for the purpose of either providing for the payment of insurance benefits or for religious, charitable, scientific, literary, education, etc., purposes (the purposes specified in Section 170 (c) (4) of the Code).

Another special rule was added by the Tax Reform Act of 1986. Under the Act, if as part of a solicitation of charitable contributions, articles costing in the aggregate less than \$5.00 per year are distributed without the consent of the recipient who did not request them and the articles are accompanied by a request for a contribution and a statement that the articles may be retained by the recipient whether or not a contribution to the soliciting organization is made, such distribution and the proceeds will generally not be considered Unrelated Business Activities and/or Income. This is done by a new Section to the Tax Code: 26 USC Section 513 (h).

Nonetheless, if your Post is regularly carrying on a business activity, or soliciting, selling, and publishing advertising in any of its publications, it is subject to the tax on Unrelated Business Income. In such instance your Post is required to file a Form 990-T – "Exempt Organization Business Income Tax Return" in addition to the Form 990.

If your Post is carrying on any activity which might be subject to the imposition of the Unrelated Business Income Tax, it should institute accounting procedures which will clearly identify exempt income and Unrelated Business Income and the expenditures thereof. If your Post is in doubt concerning the applicability of the Unrelated Business Income Tax to any of its activities, it should consult an accountant knowledgeable in the tax field. As noted above and for further information about Unrelated Business Income, you should contact the Internal Revenue Service for its publications and consult a tax advisor (generally a CPA or attorney) familiar with the details of the Post's finances.

Senate Committee Report

In reporting out favorably the bill, the Senate Committee on Finance said: "In this regard it is intended that any income which is spent by a veterans' organization for religious, charitable, etc., purposes (which the committee intends are to include programs involving Americanism, youth activities, community activities, and information and educational programs relative to national security and foreign affairs for purposes of this provision) is first to be deemed to represent funds derived by the organization from its insurance activities (to the extent this income is not used in connection with the insurance activities).

"Also, the committee intends that income will be treated as set aside for the specified benefits (where it is used for the reasonable cost administration directly connected with the organizations' religious, educational, charitable, etc., activities)."

Finally, the amendment with respect to the application of the unrelated business income tax to the insurance income of veterans' organizations was made effective for taxable years beginning after December 31, 1969, the effective date of the extension of the Unrelated Business Income Tax by the Tax Reform Act of 1969.

For further information about unrelated business income, obtain a copy of Internal Revenue Service Publication 598 (Rev. Sept. 81), entitled TAX ON UNRELATED BUSINESS INCOME OF EXEMPT ORGANIZATIONS from the Internal Revenue Service.

CONTRIBUTION TO A POST

A donation to a Post can result in a tax deduction to the giver as follows:

- 170 Charitable, etc., contributions and gifts
- (a) Allowance of deduction
 - (1) General Rule – There shall be allowed as a deduction any charitable contribution (as defined in sub-section (b) payment of which is made within the taxable year. A charitable contribution shall be allowable as a deduction only if verified under regulations prescribed by the Secretary or his delegate.
 - (b) Charitable contribution defined – For purposes of this Section the term ‘charitable contribution’ means a contribution or gift to or for the use of –
 - (c) A Post or organization of war veterans, or any auxiliary unit or society of, or trust or foundation for, any such Post or organization –
 - (1) organized in the United States or any of its possession, and
 - (2) no part of the net earnings of which inures to the benefit of any private shareholder or individual.

NOTE: Dues are not donations. The charitable contributions referred to is a true or “bona fide” contribution, not just so labeled even though something is given to the donor (e.g., the purchase of raffle tickets or tickets to a dance or events are not charitable contributions, no matter what they are called.) A Post should not mislabel such items since this can lead to severe legal problems.

If there are any questions about contributions, see a qualified tax advisor.

INCORPORATION

As a general rule it is recommended that Posts incorporate in the states in which they are located. Such an action helps to protect their individual members from liability and generally makes the holding of real estate a much easier matter.

The incorporation of a Post is a simple matter. In general, the cost of incorporation is small. This is particularly true in the case of non-profit corporations. As a general rule, the statutes in the several states govern the requirements for incorporating a non-profit entity. In most states, application is made to the Secretary of State of the state involved. Also as a general rule, the application for incorporation is uncomplicated and not unduly burdensome.

In that connection, your Department can assist your Post in its desire to incorporate by offering assistance and guidance in the preparation of the necessary application of incorporation. Normally a Post incorporates after it receives its permanent charter.

After incorporation has been effected, the Post should apply to the National Organization, through the Department having jurisdiction over it, for a supplemental charter, which has the effect of extending recognition to the Post as a component part of the National Organization in its corporate status.

This action was authorized by a resolution adopted by the National Executive Committee of The American Legion in May 1938, at which time a question was raised as to whether a Post upon incorporation, following receipt of its permanent charter from The American Legion, was or was not the same legal entity and therefore could, or could not, operate as a corporation under its permanent charter. It was decided legally, since a Post upon incorporation was first answerable to the state in which it was incorporated, rather than to the National Organization of The American Legion, that a supplemental charter be employed as a device to give due recognition to the status of a Post following incorporation as a component part of the National Organization of The American Legion.

In this regard, before action is taken you should consult an attorney and/or the Department Judge Advocate. Some states have statutes for charitable or service organizations, which provide a mechanism, which leads to the same results. (One example, but by no means the only example, is New York’s Benevolent Orders’ Law which deems duly chartered American Legion Posts, Auxiliary Units, and 8 & 40 Chapeaus to be incorporated entities providing the Post and members with protection similar to that provided by incorporation.)

COPYRIGHT (ASCAP, BMI, ETC.)

The subject of compliance with copyright laws and the payment of royalties for the performance of musical or other works at a local Post is a very technical one. United States Law generally provides for royalties to compensate a writer, artist or composer for this work, talent and genius.

The American Society of Composers and Publishers (ASCAP) takes assignments of such rights and moves aggressively to enforce them. (So do other groups such as BMI.) At least one lawsuit has been filed against a Post and a number seem to be on the threshold of being filed.

The entire subject of copyright and royalty payments is very technical. For example P.L. 97-366 restored a limited exemption from payment of royalties. This is contained in 17 USC Section 110(10), which provides:

“110. Limitations on exclusive rights; exemption of certain performances and displays “Notwithstanding the provisions of Section 106, the following are not infringements of copyright:

“10. Notwithstanding paragraph 4 above, the following is not an infringement of copyright; performance of a non-dramatic literary or musical work in the course of a social function which is organized and promoted by a non-profit veterans’ organization or a non-profit fraternal organization to which the general public is not invited, but not including the invitees of the organization if the proceeds from the performance, after deducting the reasonable costs of producing the performance, are used exclusively for charitable purposes and not for financial gain. For purposes of this Section the social functions of any college or university fraternity or sorority shall not be included unless the social function is held solely to raise funds for a specific charitable purpose.”

INCLUSION LETTER

(Date)

The American Legion
P. O. Box 1055
Indianapolis, IN 46204

ATTN: National Judge Advocate

Dear Sir:

The undersigned, a duly authorized office of _____
_____ Post No. _____

Department of _____, does hereby authorize the National Organization of The American Legion to include it in its application to the Department of Internal Revenue for a group exemption letter so that this Post may be exempt from the payment of Federal Income Tax under the provisions of Section 501 (c) (19) of the Internal Revenue Code of 1954, as amended.

POST EMPLOYER IDENTIFICATION NUMBER

Sincerely,

Post Commander

Post Name

Address

ACCOUNTING PROCEDURES DURING THE ORGANIZATIONAL PERIOD OF NEW POSTS

During the formulative period of the organization of a new Post, procedure for accounting of funds received is comparatively simple.

During this formulative period a Post Adjutant is appointed or elected to carry out certain functional requirements. The adjutant should be appointed or elected immediately at the organizational meeting, and he is responsible for accounting for any funds received.

Accounting for the receipt of funds is usually restricted to two items as follows:

1. Monies received to cover incidental expenses, during the period of organization. A simple cash receipts and disbursements record will suffice for the proper accounting of such funds.
2. Payments received to cover membership dues. National and State dues should be deposited in a separate bank account, separate from other sums and on a restricted basis.

Incidental expenses incurred during the organization period might be covered in the nature of cash contributions by the potential members of the new Post. To augment such receipts, other fund raising functions are customarily engaged in such as dances and similar activities.

A Post Records Cash Record Book (Item No. 74540) is available from National Emblem Sales, which would be helpful in keeping a record for the receipt of funds by the Post. This system is in loose-leaf form, with cash receipts, checks drawn and bank balance sheets. Order from: National Emblem Sales, The American Legion, PO Box 1055, Indianapolis, Indiana 46206.

CHART OF ACCOUNTS FOR PROPOSED NEW POSTS DURING ORGANIZATIONAL PERIOD

Current Assets – 100

- 101 – Cash on Hand
- 102 – Cash in Bank – Regular Account
- 103 – Cash in Bank – Trust Fund
(State & National Dues)
- 104 – Cash in Bank – Charity Fund
- 105 – Deposits
- 106 – Prepaid Rent
- 107 – Other

Current Liabilities – 200

- 201 – Accounts Payable
- 202 – Accrued Payroll Taxes (if any)
- 203 – Other

Restricted Funds – 300

- 301 – Dues
- 302 – Department and National Dues
- 303 – Charity Funds
- 304 – Other

Net Worth – 400

- 401 – Retained Earned Income

Income – 500

- 501 – Contributions (other than Charity)
- 502 – Buffet
- 503 – Dances
- 504 – Other Fund Raising Projects

Expenses – 600

- 601 – Rent
- 602 – Buffet Expenses
 - 602.1 – Purchases
 - 602.2 – Other Expenses
- 603 – Dance Expenses
 - 603.1 – Purchases
 - 603.2 – Other Expenses
- 604 – Other Fund Raising Projects
- 605 – Utilities

CHART OF ACCOUNTS FOR A TYPICAL AMERICAN LEGION POST

It is the intent of this manual to suggest a standard Chart of Accounts. The exact account numbers and classifications as shown in the following Chart of Accounts will not be applicable to all Posts. However, the same format suggested earlier can be used by the smallest Post and be amplified for use by the larger Posts who have other recreational facilities such as swimming pools, golf courses, etc.

The basic Chart of Accounts is as follows:

- 100 Series Assets
- 200 Series Liabilities & Equity
- 300 Series Post Income
- 400 Series Post Expense
- 500 Series Social Quarters
- 600 Series Dining Room
- 700 Series Other
- 800 Series Other
- 900 Series Other

Monthly financial statements should be prepared as quickly as possible and presented to management for their thorough study. It is recommended that a Balance Sheet and Statements of Income and Expense be prepared similar to those as presented in the facsimile of the audit report. Separate operating statements should be made for the Post, social quarter, dining room, etc. These statements should include percentages where applicable, and the annual budget shown thereon.

The Chart of Accounts allows a Post better control over this type of income. An example might be: Account 103.1 entitled "Accounts Receivable" (Non-Sufficient Funds Checks). It is extremely important that this item be controlled, therefore, separated from Accounts Receivable by using the subheading 103.1. This method of record keeping allows this item to be controlled and efforts made to collect these NSF checks.

This section of the Post Operations Manual contains an expanded Chart of Accounts and an example of a complete audit for an American Legion Post.

It is the intent of this section that it be used by an accountant and the Post officers as a guide in the establishment of an accounting procedure.

The use of this section by an American Legion Post is dependent on the size and scope of its operation. It is not the intention of this section to suggest that every Post adopts this method. It is hoped that this will be used as a guide to the Post officers and accountant.

SUGGESTED CHART OF ACCOUNTS

Current Assets

- 101 – Cash on Hand
- 102 – Cash on Deposit
- 102.1 – Commercial Account
- 102.2 – Charity Fund
- 102.3 – Restricted Funds
- 102.4 – Savings
- 102.5 – Other
- 103 – Accounts Receivable
- 103.1 – Non-Sufficient Fund (NSF) Checks
- 104 – Interest Receivable
- 105 – Notes Receivable
- 106 – Inventory
- 106.1 – Dining Room
- 106.2 – Gift Case
- 106.3 – Social Quarters
- 106.4 – Other
- 107 – Prepaid Expense
- 107.1 – Insurance
- 107.2 – License
- 107.3 – Taxes
- 107.4 – Other

Fixed Assets

- 125 – Land
- 126 – Building
- 126A – Allowance for Depreciation
- 127 – Furniture & Fixtures – Post
- 127A – Allowance for Depreciation
- 128 – Furniture, Fixtures & Equipment – Social Quarters
- 128A – Allowance for Depreciation
- 129 – Furniture, Fixtures & Equipment – Dining Room
- 129A – Allowance for Depreciation

Other Assets

- 150 – Stocks
- 151 – Bonds
- 152 – Other Investments

Current Liabilities

- 201 – Accounts Payable
- 202 – Contracts Payable
- 203 – Notes Payable (Short Term)
- 204 – Accrued Compensation Insurance
- 205 – Accrued Income Tax
- 206 – Accrued Interest
- 207 – Accrued Payroll Taxes
- 208 – Accrued Property Tax
- 209 – Accrued Sales Tax

Long Term Liabilities	414 – Legal
221 – Contracts Payable	415 – Supplies
222 – Notes Payable	416 – Loss on Bad Checks
223 – Mortgage Payable	417 – Music – Organist
	418 – Maintenance & Repairs
Restricted Funds	419 – Miscellaneous & Unassigned Expenses
241 – Charity Funds	420 – Office Expenses
242 – Children & Youth	420.1 – Auto Allowance
243 – Major Projects Funds	420.2 – Postage
244 – Attendance Drawing Fund	420.3 – Stationery & Printing
245 – Bowlers Fund	420.4 – Supplies
246 – Drill Team Fund	421 – Officers Expenses
247 – Golf Team Fund	422 – Per Capita Dues
248 – Past Commanders Fund	423 – Photographs & Publicity
249 – Rifle Team Fund	424 – Rent
	425 – Ritual Expenses
Deferred Income	426 – Salaries
261 – Unearned Dues	426.1 – Doorman
262 – Unearned Fees	426.2 – Janitorial
263 – Unearned Rent	426.3 – Office
264 – Deposits	426.4 – Secretary
	426.5 – Security
Post Equity	426.6 – Other
281 – Retained Equity	427 – Subscriptions
	428 – Taxes
Post Income	428.1 – Payroll
301 – Membership Dues	428.2 – Property
311 – Dividends	428.3 – Other
312 – Interest	429 – Utilities
313 – Bequests	
314 – Contributions	Post Activities
315 – Rents	451 – Americanism
316 – Royalties	452 – Band
321 – Post Activities (Separate Account Number for each activity)	453 – Baseball
	454 – Billiards
Post Expenses	455 – Birthdays
401 – Accounting	456 – Blood Bank
402 – Audit	457 – Bowling
403 – Badges & Pins	458 – Campers Club
404 – Bulletin	459 – Choir
405 – Card Key Expenses	460 – Christmas Party
406 – Cash Over & Short	461 – Civil Defense
407 – Convention Expenses	462 – Dances
407.1 – National	463 – Drill Team
407.2 – State	464 – Entertainment
408 – Data Processing	465 – Legionnaire of Year
409 – Depreciation	466 – Father & Sons
410 – Employees Welfare	467 – Fishing
411 – Insurance	468 – Memorial Day
412 – Interest	469 – Food
413 – Janitorial Expense	469.1 – After Post
	469.2 – Members
	469.3 – Officers
	469.4 – Special Events

- 469.5 – Visitors
- 469.6 – Other
- 470 – Funeral
- 471 – Golf
- 472 – Government Relations
- 473 – Greeters
- 474 – Hunting
- 475 – Installation Ball
- 476 – Indoctrination , Initiation, etc.
- 477 – Legion Birthday
- 478 – Membership
- 479 – Memorial Service
- 480 – Mother’s Day
- 481 – New Year’s Eve
- 482 – Old Timer’s Night
- 483 – Picnic
- 484 – Pistol Team
- 485 – Refreshments
- 485.1 – Members
- 485.2 – Officers
- 485.3 – Special Events
- 485.4 – Visitors
- 485.5 – Other
- 486 – Sick Visitations
- 487 – Visitations
- 487.1 – At Home
- 487.2 – Away

CHARITY ACCOUNT 241

Sub-Heading

- .01 – Charity Post Receipts
- .02 – Bequeaths
- .03 – Contributions
- .04 – Charity Ball
- .05 – Special Fund Raising Activities (Separate Account Number for each)
- .50 – Aid to Legionnaires
- .51 – Aid to Veterans
- .52 – Christmas Baskets
- .53 – Christmas Kiddies Party
- .54 – Contributions to Community & Civic Programs
- .55 – Contributions to Organized Charities
- .56 – Crippled Childrens Program
- .57 – Easter Kiddies Party
- .58 – Child Welfare Foundation
- .59 – Flowers & Cards
- .60 – Scholarships
- .61 – Scouts
- .62 – Department Projects
- .63 – Thanksgiving Baskets
- .64 – Entertainment
- .65 – Youth Activities

SOCIAL QUARTERS

- 501 – Liquor Sales
- 501.1 – Members & Guests
- 501.2 – Public
- 502 – Cigarettes
- 503 – Sundries
- 511 – Card Room
- 512 – Facilities Rental
- 513 – Machine Income
- 514 – Other
- 531 – Purchases
- 531.1 – Liquor
- 531.2 – Beer & Wine
- 531.3 – Bar Supplies
- 531.4 – Cigarettes
- 531.5 – Sundries
- 551 – Advertising
- 552 – Alarm Service
- 553 – Accounting
- 554 – Audit & Legal
- 556 – Card Room Expenses
- 557 – Lounge Expenses
- 558 – Cash Over & Short
- 559 – Cleaning Supplies
- 560 – Decorations
- 561 – Depreciation
- 562 – Employee’s Welfare
- 563 – Equipment Rental
- 564 – Ice
- 565 – Insurance
- 566 – Janitorial
- 567 – Laundry & Linens
- 568 – Licenses
- 569 – Machine Service
- 570 – Meals Furnished to Employees
- 571 – Miscellaneous & Unassigned Expenses
- 572 – Music & Entertainment
- 573 – Rent
- 574 – Repairs & Maintenance
- 575 – Replacements
- 575.1 – Glassware
- 575.2 – Other
- 576 – Salaries & Wages
- 576.1 – Direct Labor
- 576.2 – Management
- 576.3 – Office
- 576.4 – Other
- 577 – Taxes
- 577.1 – Payroll
- 577.2 – Property
- 577.3 – Sales
- 577.4 – Other
- 578 – Telephone
- 579 – Uniforms
- 580 – Utilities

DINING ROOM

- 601 – Food Sales
 - 601.1 – Members & Guests
 - 601.2 – Public
- 631 – Food Purchases
- 651 – Advertising
- 652 – Alarm Service
- 653 – Accounting
- 654 – Audit & Legal
- 655 – Auto Expenses
- 656 – Dining Room Supplies
- 657 – Kitchen Supplies
- 658 – Cash Over & Short
- 659 – Cleaning Supplies
- 660 – Decorations
- 661 – Depreciation
- 662 – Employee’s Welfare
- 663 – Equipment Rental
- 664 – Ice
- 665 – Insurance
- 666 – Janitorial
- 667 – Laundry & Linen
- 668 – Licenses
- 669 – Menus & Printing
- 670 – Meals Furnished to Employees
- 671 – Miscellaneous & Unassigned Expenses
- 672 – Music & Entertainment
- 673 – Rent
- 674 – Repairs & Maintenance
- 675 – Replacements
 - 675.1 – Dinnerware
 - 675.2 – Glasses
 - 675.3 – Kitchen Utensils
 - 675.4 – Silverware
 - 675.5 – Other
- 676 – Salaries & Wages
 - 676.1 – Kitchen
 - 676.2 – Waitresses
 - 676.3 – Management
 - 676.4 – Office
 - 676.5 – Other
- 677 – Taxes
 - 677.1 – Payroll
 - 677.2 – Property
 - 677.3 – Sales
 - 677.4 – Other
- 678 – Telephone
- 679 – Uniforms
- 680 – Utilities

POST AUDITS

APPOINTMENT OF THE POST AUDITING COMMITTEE

This committee is one of the most important committees of the Post. Its function is to oversee the accounting procedures and methods of internal control as a means of conserving the financial interest of the Post at every level. This committee should be thoroughly familiar with the accounting system.

Much care should be taken by the officers of the Post in the appointment of a chairman for the Auditing Committee. The chairman should be either appointed by the Executive Committee or be a member of the Executive Committee. It is possible that the Post Officers might want the Auditing Committee to function as a sub-committee of the Executive Committee during the entire year. The Post Finance Officer should serve as an advisor and consultant to this committee since he handles the financial records of the Post.

The members of this committee should be qualified individuals with knowledge of accounting and the procedures inherent to the knowledge. Experience has shown, where qualified members are appointed to this committee and their duties and assignments are fulfilled, that they can be of immeasurable assistance to those in charge of the administrative affairs of the Post.

SELECTION OF A "QUALIFIED PUBLIC ACCOUNTANT"

Much care should be taken in the selection of a "Qualified Public Accountant" to examine the Post's accounting records and render an audit report from such an examination. He should be versed in fraternal accounting. A "Qualified Public Accountant" is one who holds himself out to the public generally full time, for the performance of accounting services. Many states require the accountant to be licensed by the State Board of Accountancy. In these states, an unlicensed accountant is not "qualified" to perform the annual audit. Since the intent is to have reasonably independent auditing service, it is deemed inappropriate, even though otherwise qualified, for an officer, or member of the auditing committee to perform the audit. A member of the Post, properly "qualified", can be engaged to audit the books.

DUTIES OF THE AUDITING COMMITTEE

1. Engage a "Qualified Public Accountant," who should have the approval of the majority of the Post. If this method is chosen it should be done in enough time to allow the auditor to arrange this time in order that the report can be submitted at the end of the Post's fiscal year.
2. The Auditing Committee should recommend to the Executive Committee the name of a "Qualified Public Accountant." The Executive Committee should then secure the approval of the membership and the final report should be addressed to the chairman of the Executive Committee.
3. The report should be carefully reviewed by the auditor and the chairman of the Auditing Committee. Questions in connection with the report should be fully clarified.
4. The final report of the auditor should be presented to the Post for approval. The chairman of the Auditing Committee should be in a position to explain any portion of it to the Post.

The work of the Auditing Committee is very important and an integral part of Post activities. Their duties should be strictly adhered to for the information and protection of all the members of the Post.

In many instances the auditor will include in a "Management Letter" his recommendations to the Executive Committee unless these recommendations are pertinent to the presentation of his Audit Report. This "Management Letter" refers to changes in operations or systems, suggestions for internal procedures and recommendations for increased control. The Audit Report is usually reserved for presentation of financial data with such footnotes as required for full disclosure of financial facts.

This management letter is usually comprehensive and meaningful. It is the result of the accountant's experience and knowledge, and is only offered when there is a real need for corrective procedure. In some circumstances, these comments generally go unheeded because the Audit Report is not studied and proper consideration is not given to his suggestions. The Audit Report should be carefully scrutinized and personally discussed with the auditor submitting the report. Then, due consideration should be given to any recommendations made, and if feasible, corrective action taken to carry out such suggestions.

It is found that the management letter covers a wide area. Weaknesses in accounting procedure are covered. Lack of proper internal control of the Post's funds are pointed out. Many other worthwhile suggestions can be found in the management letter.

SUGGESTED SCHEDULES TO BE INCLUDED IN THE AUDIT REPORT

Valuable information in connection with Post operations of importance and for the sole benefit of the members and officers of a Post, that are not usually revealed in an Audit Report, are a necessity. Therefore, it is suggested that the Audit Report should reveal and include such additional information as follows:

Insurance analysis schedule outlining in detail the names of insurance companies, policy numbers, date of policies, term of policy, details of coverage, amount of insurance in each category, and premiums paid. The Post's Auditing Committee should examine this schedule very closely to determine that sufficient insurance coverage is maintained to amply protect the Post's investment in its fixed assets and fidelity bonds as well.

A budget schedule and summary for the year under examination should be prepared. It should include a comparison of actual income and expenditures to the adopted budget.

SUGGESTED GUIDELINES IN THE PREPARATION OF THE ANNUAL REPORT BY THE "QUALIFIED PUBLIC ACCOUNTANT"

The examination and audit should include all facilities, Building Association, each and all Corporations or entities of the Post, as well as the Post operation, and should be made in accordance with generally accepted auditing standards. The auditor shall disclose one of the following:

1. Express an unqualified opinion.
2. Express a qualified opinion and reason for such limitation.
3. Disclaim an opinion on the statement taken as a whole.
4. Disclose that the statements have been prepared without audit.

In addition, the auditor should:

- A. Disclose any material fact known to him as to any contingent asset or contingent liability that may have come to his attention during the examination and not appearing on the balance sheet.
- B. Disclose any information coming to his attention that materially affects the results of the statements as submitted in the audit.
- C. Where applicable, all comments by the accountant should be included in the "Management Letter" to the Executive Committee.
- D. It is recommended that Financial Statements include a comparison of like income and expenses from the prior year's activities when and where appropriate.

SCOPE

1. The verification of all cash, including the examination of all bank accounts and statements, stocks, bonds, and other tangible assets.
2. Examine the internal control of the accounting procedure of the Post, lounge, and any other facilities of the Post. Recommendations for any corrective procedure to appear in the Comment Section.
3. Reconciliation of the membership rolls and data, with dues and other fees collected, with a provision for the allocation of prepaid dues applicable to subsequent periods.
4. The exhibits included in the audit report shall consist of, but not be limited to, a balance sheet of all Posts funds, assets and liabilities. A separate statement for any other facility or entity of the Post. All to be combined in a consolidated balance sheet.
5. Operating statements and/or profit and loss schedules or exhibits are to be separately provided for the lounge and restaurant operations.
6. Method used in verification of all inventories appearing in the separate or consolidated balance sheet. See following pages of this section for a suggested inventory certificate.
7. If additions are made to the fixed assets of the Post or any of its facilities, verification should be made and examined as to proper approval covering such expenditures. Amounts involved covering such additions should be clearly set forth in the report.

8. If additions, or disposal of investment funds of the Post, or any of its facilities, are disclosed during the course of the examination, proper verification and disclosure should be made as to due approval of such transactions.

9. Other comments should be disclosed in accordance with regularly accepted accounting procedures.

10. Footnotes should be used to set forth any special item appearing in the balance sheet or operating statements that require a detailed explanation.

11. The internal control, and the accounting system in use, should be carefully examined. If inadequate, any corrective recommendations should appear in the Management Letter.

12. The fixed asset account should be examined to determine as to the method of evaluation used, whether cost or otherwise.

13. Any bad debts written off during the period under examination should be explained.

14. In the event that prepaid expense items appear on the balance sheet and are considered as a consequential item, remarks relative thereto should be included in the Management Letter.

15. The suggested chart of accounts, as outlined elsewhere, provides for restricted funds to cover sums collected for a specific function or charitable purpose. Examinations should be made that proper reserves are maintained covering such items.

16. An examination of the minutes to both the Post and Board of Trustees should be made, when found necessary to conform to certain requirements of this "Scope" and in particular to Section (7).

INVENTORY CERTIFICATES

In circumstances where it is impossible for the auditor who has been selected to make the annual examination to be present on the date selected for inventory, to personally supervise and/or observe the actual counting of the inventory of merchandise on hand, as a substitute procedure the attached certificate should be completed and furnished to him.

Substantiative detailed records should be retained, therein indicating quantities on hand and pricing methods used, in arriving at the total inventory valuation. The auditor can then check quantities and prices used and verify the totals, for any possible mathematical errors in the extensions.

Current valuation of inventories become a very important factor in ascertaining accurately the cost of goods sold in each and every category. This enables correct results in dollars, as well as in percentage, of the cost of goods sold. This is a very important functional detail, as the correct ultimate determination of net profit in each category can be adversely affected by improperly stating the amount of the various inventories.

The inventory should be taken under the supervision of the chairman of the Post's Auditing Committee and assisted by no less than two additional members of the committee. The certificate should be executed in duplicate, the original copy furnished to the auditor and the remaining copy to be retained by the Auditing Committee in the files of the Post.

(EDITOR'S NOTE: The following audit is based on a fictitious American Legion Post. We realize that many Departments begin their membership year at different times of the year. This Post starts their membership year August 1 and has 850 members.)

INVENTORY CERTIFICATE – LOUNGE

(Addressed to
Individual making annual audit)

Dear Sir:

In connection with your examination of the Balance Sheet of _____ Post No. _____
The American Legion, as of July 31, 20XX, 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	\$ _____

The above amounts are 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 _____ Post
No. _____, The American Legion 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 July 31, 20XX.

Yours very truly,

_____ Post No. _____
The American Legion Auditing Committee

By _____
Chairman

Member

Member

Date Signed _____

INVENTORY CERTIFICATE – RESTAURANT

(Addressed to
Individual making annual audit)

Dear Sir:

In connection with your examination of the Balance Sheet of _____ Post No. _____
The American Legion, as of July 31, 20XX, the following is a summary of the inventory which has been determined
under our general direction and control:

Restaurant \$ _____

The above amounts are 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 _____ Post
No. _____, The American Legion 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 July 31, 20XX.

Yours very truly,

Post No. _____
The American Legion Auditing Committee

By _____
Chairman

Member

Member

Date Signed _____

August 5, 20XX

Chairman Executive Committee
Post 12
The American Legion
Temple, Michigan 48824

Gentlemen:

We have examined the Balance Sheet of Post No. 12 of The American Legion as of July 31, 20XX, and the related Statements of Income and Expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, the accompanying Balance Sheet and Statement of Income and Expense present fairly the financial position of Post No. 12 of The American Legion at July 31, 20XX, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Very Truly Yours,

Joseph Smith
Certified Public Accountant

**POST 12 THE AMERICAN LEGION
STATEMENT OF REVENUE AND EXPENSE
FOR THE 12 MONTH PERIOD ENDING JULY 31, 20XX**

	POST	CLUB	OTHER	TOTAL
REVENUE:			Bldg. Assn.	
Dues	8,500.00			
Other Revenue – Schedule 1	65,873.22	5,230.35	2,937.88	
Rent			18,000.00	
TOTAL REVENUE	74,373.22		20,937.88	
ADD CLUB OPERATIONS:				
Gross Profit – Schedule 1		71,735.11		
TOTAL GROSS PROFIT		76,965.46		
LESS EXPENSES:				
Salaries and Wages	9,397.42		210.00	
Employees Meals				
Rent	4,500.00	13,500.00		
Utilities	3,195.56	3,717.41		
Supplies	1,567.83	3,563.48		
Repairs and Maintenance	2,924.85	3,685.05		
Taxes and Licenses	655.53	6,838.53	7,988.49	
Professional Services	1,150.00	2,300.00	100.00	
Interest				
Insurance	1,495.63	4,021.77	1,388.00	
Depreciation	1,681.48	2,044.68	10,264.96	
Other Operating Expenses	7,956.62	22,762.64		
National and State Dues	4,462.50			
Publicity and Public Relations	1,553.02			
Bulletins and Notices	1,130.38			
Committee Activities	22,216.42			
Convention Expense	2,400.00			
Commanders Expense				
Buffets and Dinners				
Other Post Expenses	1,301.28			
TOTAL EXPENSES	67,588.52	62,433.62	19,951.45	
EQUITY INCREASE OR DECREASE	6,784.70	14,531.84	986.43	

**POST 12 THE AMERICAN LEGION
SCHEDULE OF GROSS PROFIT AND OTHER INCOME
FOR THE 12 MONTH PERIOD ENDING JULY 31, 20XX**

	BAR	DINING ROOM	OTHER	TOTAL
SALES	100,351.85	128,481.36	2,904.52	
LESS COST OF SALES:				
Inventory, August 1, 20XX	5,468.32	2,780.96	236.93	
Purchases	32,050.19	50,669.08	2,281.00	
Total Goods Available for Sale	37,581.51	53,450.04	2,517.92	
Less Inventory, July 31, 20XX	4,703.47	3,470.79	185.66	
TOTAL COST OF GOODS SOLD	32,815.04	49,979.25		
ADD:				
Salaries and Wages	27,469.15	42,912.77		
Employees meals – at cost	1,648.15	2,846.00		
TOTAL COST OF SALES	61,932.34	95,738.02	2,332.26	
GROSS PROFIT	38,419.51	32,743.34	572.26	71,735.11

PERCENTAGE OF SALES:				
Merchandise Sold	32.7%	38.9%	80.3%	
Salaries and Wages	27.4%	33.4%		
Employees meals	1.6%	2.2%		
Gross Profit	38.3%	25.5%	19.7%	

OTHER INCOME	POST	LOUNGE	OTHER	TOTAL
1. Buffets and Dinners	16,509.92			
2. Dances	9,310.13			
3. Games and Amusements	24,360.20	4,386.25		
4. Interest	1,466.91		2,937.88	
5. Post Activities	10,313.46			
6. Miscellaneous	1,479.00	844.10		
7. Dividends	2,433.60			
TOTAL	65,873.22	5,230.35	2,937.88	

**POST 12 THE AMERICAN LEGION
CONSOLIDATED BALANCE SHEET
July 31, 20XX**

ASSETS			AMOUNT	TOTAL
CURRENT ASSETS:				
Cash on Hand and in Bank			119,450.57	
Dues Receivable				
Inventories			8,699.74	
Other				128,150.31
FIXED ASSETS:				
	COST	RESERVE		
Land	17,152.43			
Buildings	311,517.39	149,562.95		
Personal Property	116,258.64	99,257.53		
	444,928.46	248,820.40		196,107.98
OTHER ASSETS:				
Prepaid Expenses			8,986.44	
Other			17,750.00	26,736.44
TOTAL ASSETS:				350,994.73
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts Payable			5,431.89	
Note Payments – due within 1 year				
Other Payable			3,623.10	9,054.99
TERM LIABILITIES:				
Note Payments – due after 1 year				
Other Tem Liabilities				
TOTAL LIABILITIES				
RESTRICTED FUNDS:				
Charity			4,574.60	
Other			10,774.60	15,349.20
EQUITY:				
Balance at beginning of year			304,287.57	
Post increase or decrease			6,784.70	
Lounge increase or decrease			14,531.84	
Other increase or decrease			986.43	
TOTAL EQUITY				326,590.54
TOTAL LIABILITIES AND EQUITY				350,994.73

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POST NO. 12
THE AMERICAN LEGION
Statement of Financial Condition
As of July 31, 20XX

CURRENT ASSETS

Cash on Hand		\$	6,375.61
Cash on Deposit			
Commercial	\$	27,562.21	
Savings		47,376.25	
Charity		<u>4,574.60</u>	
	\$	79,513.06	
Inventory - Merchandise		\$	8,359.92
Inventory - Gift Case			339.82
Prepaid Liquor License			743.99
Prepaid Expense			2,224.62
Prepaid Insurance			<u>1,413.68</u>
Total Current Assets		\$	98,970.70

FIXED ASSETS

Furniture & Fixtures		\$107,031.16
Less: Allowance for Depreciation		<u>95,465.58</u>
Total Fixed Assets		\$ 11,565.58

OTHER ASSETS

Loan - First FCU Credit Union		\$ 250,000.00
Stock - First National Corp.		5,000.00
Stock - Miscellaneous		<u>17,750.00</u>
Total Other Assets		<u>\$ 272,750.00</u>
TOTAL ASSETS		<u><u>\$ 383,286.28</u></u>

POST NO. 12
THE AMERICAN LEGION
Statement of Financial Condition
As of July 31, 20XX

LIABILITIES & CAPITAL

Current Liabilities

Accounts Payable	\$	9,931.89	
Accrued Sales Tax		906.88	
Accrued Payroll Taxes		1,400.25	
Accrued Wages		1,228.26	
Federal Income Tax		87.71	
Total Current Liabilities	\$		13,554.99

Deferred Income

Restricted Funds

Bowler's Fund	\$	194.98	
Basketball		24.52	
Charity Fund		4,574.60	
Drill Team Fund		220.57	
Golf Team Fund		1,000.54	
Greeter's Fund		178.61	
Kamper Klub		113.49	
Memorial Fund		1,039.67	
Poppy Fund		60.00	
Past Commanders Memorial		138.31	
Piggy Bank Fund		7,372.64	
Piston Team		<u>431.27</u>	
Total Reserves	\$		15,349.20

Capital

Retained Earnings at August 1 20XX	\$	333,065.55	
Net Gain for 12 Months Ending July 31, 20XX		21,316.54.	
Total Capital	\$		<u>354,382.09</u>
TOTAL LIABILITIES & CAPITAL	\$		<u><u>383,286.28</u></u>

POST NO. 12
THE AMERICAN LEGION
Statement of Income & Disbursements
For Year Ending July 31, 20XX

Dues Income

Dues	\$	8,500.00	
Fees			\$ 8,500.00

Post Activities Income (Net)

Bulletin	\$	1,182.00	
Country Store Nites		995.85	
Disneyland		455.58	
50/50 Drawings		2,173.94	
Fireworks Stand		1,889.80	
German Day Dinner		58.60	
Gift Case		38.54	
Italian Day Dinner		447.20	
Match Books		1,767.12	
Miscellaneous		1,304.83	
			10,313.46

Total Post Income	\$		18,813.46
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Post Expense (Schedule "A")	\$	48,372.10	
Post Activities Expense (Schedule "B")		19,216.42	
			67,588.52

Post Gain or (Loss)	\$		(48,775.06)
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Other Income

Miscellaneous	\$	1,479.00	
Games and Amusements		24,360.20	
Dances		9,310.13	
Buffets and Dinners		16,509.92	
Dividends		2,433.60	
Interest Earned		1,466.91	
Social Quarters (Schedule "C")		11,097.04	
Dining Room (Schedule "D")		3,434.80	
			70,091.60

Total Net Gain or (Loss)	\$		21,316.54
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**POST NO. 12
THE AMERICAN LEGION
Statement of Post Expense
For Year Ending July 31, 20XX**

Accounting Service	\$ 900.00
Audit	250.00
Bulletin	5,130.38
Card Key	488.41
Cleaning & Expense	788.15
Depreciation	1,681.48
Employees Health Insurance	1,050.81
National & State Expense	
Delegate	2,400.00
Per Capita	4,462.50
Other	1,301.28
Insurance	1,495.63
Janitorial Services	2,595.00
Post Supplies	
Magazines	154.41
Music - Organist	490.00
Office Expense	
Stationery & Printing	1,188.05
Postage	1,189.84
Supplies	184.79
Office Supplies	194.99
Auto Allowance	1,200.00
Payroll Taxes	655.53
Photographs & Publicity	553.02
Rent	4,500.00
Repairs & Maintenance	2,924.85
Salaries	9,397.42
Utilities	<u>3,195.56</u>
 Total Post Expenses	 <u>\$48,372.10</u>

POST NO. 12
THE AMERICAN LEGION
Statement of American Legion Activities
For Year Ending July 31, 20XX

Americanism	\$ 624.98
Birthday	2,380.00
Blood Bank	240.00
Choir	1,426.35
Christmas Party	842.00
Civil Defense	200.00
Dances	2,965.08
Entertainment	1,143.96
Legionnaire of the Year	86.40
Fathers & Sons Nite	386.50
Fishing	100.00
Guests Dinners	2,965.08
Guests Drinks	1,644.65
Funeral	128.32
Greeters	114.00
Indoctrination	672.45
Old Timer Nite	442.38
Picnic	1,221.57
Birthday Nite	246.00
Visitations	<u>1,386.70</u>
	<u><u>\$19,216.42</u></u>

POST NO. 12
THE AMERICAN LEGION
Statement of Income, Social Quarters
For Year Ending July 31, 20XX

Sales		
Lounge	\$ 100,351.85	
Cigarettes	1,696.30	
Sundries	<u>1,207.590</u>	
		\$ 103,256.37
Cost of Sales		
Lounge	\$ 32,815.04	32.70%
Cigarettes	1,252.67	73.80%
Sundries	<u>1,079.59</u>	89.40%
		<u>35,147.30</u>
Gross Profit on Sales		68,109.07
Other Income		
Games, etc.	\$ 4,093.00	
Vending Machines	293.25	
Miscellaneous	<u>844.10</u>	
		<u>5,230.35</u>
Total Gross Profit		73,339.42 67.60%
Operating Expenses		
Accounting	\$ 900.00	0.8%
Audit	250.00	0.2%
Alarm Service	473.52	0.4%
Appetizers	554.11	0.5%
Breakage & Supplies	259.00	0.2%
Card & Game Expense	81.94	0.1%
Cleaning Supplies	849.83	0.8%
Depreciation	1,363.20	1.3%
Employees Health Insurance	1,205.73	1.1%
Ice	7.50	
Insurance	2,584.25	2.4%
Janitorial Service	3,651.25	3.4%
Laundry & Linen	140.00	0.1%
License	981.59	0.9%
Meals Furnished to Employees	1,648.15	1.5%
Music	3,427.50	3.2%
Machine Service	638.60	0.6%
Maintenance & Repair	2,021.48	1.9%
Rent	10,125.00	9.3%
Salaries	27,649.15	25.3%
Payroll Taxes	1,859.76	1.7%
Utilities	<u>1,697.31</u>	<u>1.6%</u>
Net Income Before Provision		<u>62,188.87</u>
For Federal Income Tax		11,150.55 10.3%
Federal Income Tax Due		<u>53.51</u>
NET INCOME		<u><u>\$ 11,097.04</u></u>

POST NO. 12
THE AMERICAN LEGION
Statement of Income & Expense
For Year Ending July 31, 20XX

DINING ROOM

Food Sales	\$ 128,481.36	100.0%
Cost of Food Sold	<u>49,979.25</u>	<u>38.9%</u>
Gross Profit	\$ 78,502.11	61.1%

Operating Expenses

Accounting Service	\$ 900.00	0.7%
Audit	250.00	0.2%
Dining Room Supplies	2,057.67	1.6%
Kitchen Supplies	1,246.81	1.0%
Cash Over & Short	3.80	
Cleaning Supplies	594.12	0.5%
Decorations	146.48	0.1%
Depreciation	681.48	0.5%
Insurance	1,437.52	1.1%
Janitorial	3,824.63	3.0%
Laundry & Linen	2,852.41	2.2%
Licenses	108.00	0.1%
Menus & Printing	843.00	0.7%
Meals Furnished to Employees	2,846.00	2.2%
Rent	3,375.00	2.6%
Repairs & Maintenance	1,663.57	1.3%
Replacements	2,186.44	1.7%
Salaries & Wages	42,912.77	33.4%
Taxes, Payroll	3,801.47	2.9%
Telephone	439.59	0.3%
Uniforms	842.19	0.7%
Utilities	<u>2,020.16</u>	<u>1.6%</u>

Total Operating Expense	<u>75,033.11</u>	<u>58.4%</u>
Net Income Before Provision For Federal Income Tax	3,469.00	2.7%
Federal Income Tax Due	<u>34.20</u>	
NET INCOME	<u><u>\$ 3,434.80</u></u>	

**POST NO. 12
THE AMERICAN LEGION
Tax Computation
Unrelated Business Income**

	LOUNGE	RESTAURANT
*Unrelated Business Income	\$ 13,539.00	\$ 20,200.25
Cost of Sales	<u>4,427.25</u>	<u>7,857.90</u>
Gross Profit	\$ 9,111.75	\$ 12,342.35
Direct Labor	\$ 3,706.01	\$ 6,746.88
Overhead Allocation	<u>4,552.46</u>	<u>5,050.06</u>
	<u>8,258.47</u>	<u>11,796.94</u>
Net Income	\$ 853.28	\$ 545.41
Less: Special Deduction (IRS)	<u>610.06</u>	<u>389.94</u>
Taxable Income	<u>\$ 243.22</u>	<u>\$ 155.47</u>
Federal Income Tax Payable	<u>\$ 53.51</u>	<u>\$ 34.20</u>

* The Internal Revenue Service defines "Unrelated Business Income" as the gross income derived from Sales to those other than members or member's guests. Namely, Sales to the Public

**POST NO. 12
THE AMERICAN LEGION
Schedule of Stock Investments**

300 Shares Common Stock	\$ 25.00 Par*	
Southern Nevada Edison Co.		
Purchased May 15, 20XX @ \$34.00 per share		\$ 10,200.00
As evidenced by:		

Certificate Number

LM 13510	100 Shares
LM 13511	100 Shares
LM 13512	100 Shares

200 Shares Common Stock	\$ 25.00 Par*	
Southern Nevada Edison Co.		
Purchased January 23, 20XX @ \$37.75 per share		7,550.00
As evidenced by:		

Certificate Number

LM 16228	100 Shares
LM 16229	100 Shares

20 Shares Common Stock	\$ 25.00 Par*	
Northern Nevada Edison Co.		
Stock Dividend Issued February 24, 20XX		

Certificate Number

LM 109985	20 Shares
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1040 Shares Common Stock
Northern Nevada Edison Co.
Stock Issued January 19, 20XX, as result of
Stock Split into 2 shares for each outstanding
Share as evidenced by:

Certificate Number

LM 193484	1,040 Shares
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Book Value Based upon Purchase Price	\$ 17,750.00
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*Par Value \$8-1/3 as of January 19, 20XX as result of Stock Split.

**POST NO. 12
THE AMERICAN LEGION
Statement of Charity Account
For Year Ending July 31, 20XX**

Charity Balance at August 1, 20XX	\$6,356.41
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Receipts

Charity Pot	\$ 4,452.11	
Charity Ball	7,095.00	
Mother's Day	351.05	
		\$ 11,898.16

Disbursements

Aid to Legionnaires	\$ 2,221.77	
Aid to Veterans	391.05	
Blood Donor Expense	127.60	
Boy Scouts & Girl Scouts	367.48	
Charity Ball	3,736.89	
Christmas Baskets	53.99	
Contributions to Civic Programs	700.74	
Contributions to Organized Charity	1,015.95	
Flag Day	133.18	
Flowers	1,996.05	
Memorial Services	297.71	
Mother's Day	785.06	
Scholarship	675.00	
Youth Activities	1,157.50	
Aid	20.00	
		\$ 13,679.97

(Decrease) of Funds		(1,781.81)
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CHARITY BALANCE AT JULY 31, 20XX	\$ 4,574.60
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POST NO. 12
THE AMERICAN LEGION
Statement of Changes in Financial Position
For the Year ended July 31, 20XX

Analysis of Changes in Working Capital

	July 31 1973	July 31 1972	Net Change Increase or (Decrease)
Current Assets			
Cash on Hand and Deposit	\$ 83,391.17	\$ 55,361.46	\$ 28,029.71
Inventories - At Cost	8,699.74	7,952.21	747.53
Prepaid Expenses	<u>4,382.29</u>	<u>5,732.11</u>	<u>(1,349.82)</u>
Total Current Assets	\$ 96,473.20	\$ 69,045.78	\$ 27,427.42
Current Liabilities			
Accounts Payable - Trade	\$ 9,931.89	\$ 8,804.79	\$ 1,127.10
Federal Income Tax Payable	87.71		87.71
Accrued Payroll Taxes	1,400.25	1,830.88	(430.63)
Accrued Sales Tax	906.88	954.88	(48.00)
Accrued Expenses	<u>1,228.26</u>	<u>1,823.58</u>	<u>(595.32)</u>
	\$ 13,554.99	\$ 13,414.13	\$ 140.86
Restricted Funds	<u>15,349.20</u>	<u>15,299.60</u>	<u>49.60</u>
	\$ 28,904.19	\$ 28,713.73	\$ 190.46
Working Capital	<u>\$ 67,569.01</u>	<u>\$ 40,332.05</u>	
Net Increase in Working Capital			<u>\$ 27,236.96</u>
Source of Funds			
Net Income			\$ 21,316.54
Add: Expense not requiring outlay of working capital in the current period depreciation			<u>3,726.16</u>
			\$ 25,042.70
Application of Funds			
Purchase of Fixed Assets			<u>\$ 2,194.26</u>
Net Increase in Working Capital			<u>\$ 27,236.96</u>

POST NO. 12
THE AMERICAN LEGION
Budget Analysis
For Year Ending July 31, 20XX

Revenue	Actual	Budget	Increase or (Decrease)
Dues	\$ 8,500.00	\$ 8,500.00	\$
Post Activities	10,313.46	9,150.00	1,163.46
Social Quarters	11,097.04	2,500.00	8,597.04
Dining Room	3,434.80	1,200.00	2,234.80
Dividends	2,433.60	2,340.00	93.60
Interest	1,466.91	1,650.00	(183.09)
Other Revenue (Schedule 1)	\$ 51,659.25	\$ 54,860.00	\$ (3,200.75)
	<u>\$ 88,905.06</u>	<u>\$ 80,200.00</u>	<u>\$ 8,705.06</u>
Disbursements			
Accounting Service	\$ 900.00	\$ 900.00	\$
Audit	250.00	250.00	
Bulletin	5,130.38	4,600.00	530.38
Card Keys	488.41	500.00	(11.59)
Cleaning Expense	788.15	1,000.00	(211.85)
Depreciation	1,681.48	1,700.00	(18.52)
Employees Health Insurance	1,050.81	1,000.00	50.81
National & State Expense			
Delegate	2,400.00	2,800.00	(400.00)
Per Capita	4,462.50	4,462.50	
Other	1,301.28	1,500.00	(198.72)
Insurance	1,495.63	1,000.00	495.63
Janitorial Services	2,595.00	2,800.00	(205.00)
Post Activities	19,216.42	20,000.00	(783.58)
Magazines	154.41	250.00	(95.59)
Music - Organist	490.00	500.00	(10.00)
Office Expense			
Stationary & Printing	1,188.05	1,000.00	(11.95)
Postage	1,189.84	1,400.00	(210.16)
Supplies	184.79	200.00	(15.21)
Office Supplies	194.99	400.00	(5.01)
Auto Allowance	1,200.00	1,200.00	
Payroll Taxes	655.53	700.00	(44.47)
Photographs & Publicity	553.02	550.00	3.02
Rent	4,500.00	4,500.00	
Repairs & Maintenance	2,924.85	3,500.00	(575.15)
Salaries	9,397.42	12,000.00	(2,602.58)
Utilities	3,195.56	3,000.00	195.56
Contingency Fund		990.00	990.00
	<u>\$ 67,588.52</u>	<u>\$ 72,702.50</u>	<u>\$ (5,113.98)</u>
NET GAIN	<u>\$ 21,316.54</u>	<u>\$ 7,497.50</u>	<u>\$ 13,819.04</u>

**POST NO. 12
THE AMERICAN LEGION
Insurance Analysis
As of July 31, 20XX**

Carrier and Policy Number	Coverage	Term	Expires
Aetna Casualty & Surety 33 AL 802800 CCA	Comprehensive Liability	1 Year	4/1/74
Aetna Casualty & Surety 33 CK 802800-CPA	Workman’s Compensation	1 Year	4/1/74
Aetna Casualty & Surety 33 FP 15295 FCA	Fire Policy 2,500.00 90% Co. Ins.	3 Years	6/27/73
Aetna Casualty & Surety 33 MS 3440 ICA	Money & Securities 4,500.00 Off 4,500.00 On	1 Year	10/06/73
Ohio Casualty Insurance Co. 1 619 812 5	Blanket Position Bond 10,000.00	3 Years	5/7/75
Building Association			
Aetna Casualty & Surety 33 FP 081807FC	Fire Policy 337,500.00 90% Co. Ins. Building Equipment & Stock	3 Years	10/1/73

**POST NO. 12
RECONCILIATION OF DUES WITH MEMBERSHIP STATUS
Year Ended July 31, 20XX**

MEMBERSHIP (August 1, 20XX)						
Life Members.....				@	\$	\$
Members.....		25		@	10.00	250.00
TOTAL.....		25		@		250.00
Membership August 1, 20XX to July 31, 20XX						
	ReIn.	New	Total			
August	120	5	125	@	\$ 10.00	\$ 1,250.00
September	150	1	151	@	10.00	1,510.00
October	110		110	@	10.00	1,100.00
November	80	20	100	@	10.00	1,000.00
December	240	45	285	@	10.00	2,850.00
January	20	1	21	@	10.00	210.00
February	6	1	7	@	10.00	70.00
March	8	2	10	@	10.00	100.00
April	7	1	8	@	10.00	80.00
May	15	10	25	@	10.00	250.00
June	4		4	@	10.00	40.00
July	1	3	4	@	10.00	40.00
TOTAL.....			850	@	\$ 10.00	\$ 8,500.00
GROSS TO ACCOUNT FOR.....			850			\$ 8,500.00
MEMBERSHIP (July 31, 20XX) PER DEPARTMENT REPORT.....						
			850			
ADD: Delinquent Dues.....						\$
DUES RECEIVABLE TO BE ACCOUNTED FOR.....						\$ 8,500.00
CASH RECEIPTS ACCOUNTED FOR.....						\$ 8,500.00
DISCREPANCY (If any, Explain).....						

Management Letter

Chairman
Executive Committee
Post 12
Temple, Michigan 48823

In connection with our examination of Post No. 12 as of July 31, 20XX, we offer the following comments and suggestions.

1. Institute an analysis of current menu and lounge prices and related costs with a view toward establishing a standard cost to sales ratio.
2. Review Salaries and Wages in Dining Room as the combined labor cost, including meals, payroll taxes and insurance is 39.5% of Sales.
3. Written standard operating procedures should be established for each activity of the Post.
4. Any transaction not covered by the written standard operating procedures should be approved by the Board of Trustees prior to the transaction.
5. Actual revenues and expenditures should periodically be compared to the budget so that appropriate and timely action may be initiated.

Very truly yours,

Joseph Smith
Certified Public Accountant

cc: Chairman Auditing Committee
Post No. 12
Exhibit "H" Audit Report July 31, 20XX

August 5, 20XX

Auditing Committee
Post No. 12
Building Association
Temple, Michigan 48823

Gentlemen:

We have examined the Statement of Financial Condition of the Post No. 12 Building Association as of July 31, 20XX, and the related Statement of Income and Expense for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Post No. 12 Building Association at July 31, 19XX, and the results of its operations for the year then ended, in conformity with general accepted accounting principles applied on a basis consistent with that of the preceding year.

Very truly yours,

Joseph Smith
Certified Public Accountant

POST NO. 12
BUILDING ASSOCIATION
Statement of Financial Condition
As of July 31, 20XX

LIABILITIES & CAPITAL

Long Term Liabilities

Loan Due Post No. 12		\$ 250,000.00
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Capital

Preferred Stock 6% Cumulative	\$ 20,000.00	
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Authorized 400 Shares @ \$50.00

Less: 392 Shares Treasury Stock	<u>\$ 19,600.00</u>	
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\$ 400.00

Common Stock
Authorized & Issued
100 Shares @ \$50.00

\$ 5,000.00

Retained Earnings as of 4,1,XX	\$ 315.37	
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Net Gain for Year Ended 3/31/XX (Exhibit "B")	<u>\$ 986.43</u>	
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\$ 1,301.80

Total Liabilities & Capital

\$ 6,701.80

\$ 256,701.80

**POST NO. 12
BUILDING ASSOCIATION
Statement of Income & Expense
For Year Ending July 31, 20XX**

Income

Post Rent	\$ 18,000.00	
Interest Earned	<u>2,937.88</u>	
Total Earned		\$ 20,937.88

Expense

Audit	\$ 100.00	
Depreciation	10,264.96	
Insurance	1,388.00	
Property Taxes	7,988.49	
Secretarial Service	<u>210.00</u>	
Total Expense		<u>\$ 19,951.45</u>
Net Gain for 12 Months		<u><u>\$ 986.43</u></u>

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