

# Nonprofit Fiscal Policies & Procedures: A Template and Guide

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NONPROFIT SERVICES

# Guide to the Fiscal Policies & Procedures Template

Establishing good fiscal policies and procedures is more of an investment of time and attention than money. Very small nonprofits or even all-volunteer groups can commit to the conversations and documentation needed to establish sound financial policies.

Specific policies and procedures vary widely depending on the organization's budget size, staffing, and business model. There is no "one size fits all" template that will work for all organizations. This guide offers a recommended structure for policies and procedures as well as some questions to guide you in considering what is best for your organization.

## Why are fiscal policies and procedures important for nonprofits?

Maintaining meaningful and well-considered policies and procedures is a critical component of a strong financial management system. They are used to establish an organization's internal controls and for ensuring compliance with regulatory standards, as many nonprofit funders expect grantees to comply with specific policy and procedure guidelines. Documenting the organization's fiscal policies also serves as an important tool for clarifying roles and responsibilities and ultimately for ensuring that the organization's financial data is an accurate and reliable basis for organizational decision making.

The suggested policy and procedural guidelines contained in this template are designed to:

- Protect the assets of the organization;
- Ensure the maintenance of accurate records of the organization's financial activities;
- Provide a framework for the organization's financial decision making;
- Establish operating standards and behavioral expectations;
- Serve as a training resource for staff; and
- Ensure compliance with federal, state, and local legal and reporting requirements.

## How is this document organized?

This document is organized into six sections, representing the significant components of a financial management system: Accounting Procedures, Internal Controls, Financial Planning & Reporting, Revenue/Accounts Receivable, Expense/Accounts Payable, and Asset Management. Suggested policy areas are included under each header. Most organizations will have at least some policies and procedures in each area, although not every policy included here will be relevant for every organization. Similarly, some organizations will need to insert additional policies that are specific to its area of work. Underneath each header is a section for both a broad policy statement and for the specific procedures related to implementing the policy.

The goal of this tool is to serve as a basic framework and a starting point for discussion. Although some sample policies are included, this document is designed primarily to be a conversation starter, with prompting questions included in each section. Effective fiscal policies and procedures drive out of three interrelated activities: 1) an informed discussion of the organization's potential areas of risk and system needs, 2) decision-making about an appropriate level of policies and procedures to address those risks and needs, and 3) documenting those decisions and revisiting them regularly.

# Guide to the Fiscal Policies & Procedures Template

## How should we use this document?

Do not feel that you must write a policy in each area. This is a framework to guide your thinking and discussion process. You only need to implement policies that make sense for your nonprofit, given the nature of your operations and extent of your resources available for financial systems. Start with the areas that present the most potential risk or confusion to the organization.

Some things to keep in mind throughout the process of discussion and documentation:

- Policies should be clearly documented and easily understood by individuals outside of the particular department or the organization;
- Write policies that you can realistically maintain given the organization's resources;
- Staff members involved in processes should be listed by job title;
- Agency forms relevant to the policy should be cited; and
- Relevant time frames should be indicated.

## Who should be involved?

The most important part of developing policies and procedures is that they are discussed, agreed upon, and regularly reviewed by both the decision makers in an organization and by those who will be implementing them on a day-to-day basis. In most organizations this will be a combination of Board members (often delegated to a Finance Committee), management staff, and front line financial staff. How this process occurs can vary significantly depending on the size, structure, and culture of the organization.

In most cases, the high-level policy questions should be discussed between Board members and management staff. The full Board of Directors has ultimate approval of the broad policy decisions as recommended by this informed work group.

The day-to-day procedural steps are often best determined between management staff and front line financial staff. Together they are in the best position to determine the most efficient and effective ways to implement a given policy direction. The Board Finance Committee may serve as another set of eyes on the procedures to ensure that they adequately address the broad policy goal, but they often do not have the operational perspective needed to write them.

Ultimately the Executive Director has responsibility for administering the policies and ensuring compliance with the procedures once they have been approved by the Board of Directors. It is good practice to train staff regularly on the policies and procedures. This can often be done in conjunction with a review process, which should occur every two years at a minimum.

## Resources for more information

- <http://www.compasspoint.org/downloads>
- <http://www.councilofnonprofits.org/resources/financial-management>
- <http://www.nonprofitsassistancefund.org>

# SAMPLE NPO Fiscal Policies & Procedures

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## Accounting Procedures

This section covers basic accounting procedures for the organization. The accounting procedures used by the organization shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.

### Basis of Accounting

SAMPLE Policy: The organization uses the accrual basis of accounting. The accrual basis is the method of accounting whereby revenue and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred. This method of recording revenue and expenses is without regard to date of receipt or payment of cash.

Definition: The accrual method allows for recording revenue and expenses when incurred. It eliminates the budget distortion of large advance payments, such as annual insurance premiums, etc. This method gives a more accurate picture when actual expenses are compared with budgeted amounts. It also eliminates the possibility of overlooking incurred but unpaid expenses when making budget projections.

SAMPLE Procedures:

- Throughout the fiscal year, expenses are accrued into the month in which they are incurred. The books are closed no later than the [DAY/WEEK] after the close of the month. Invoices received after closing the books will be counted as a current-month expense.
- At the close of the fiscal year, this rule is not enforced. All expenses that should be accrued into the prior fiscal year, are so accrued, in order to ensure that year-end financial statements reflect all expenses incurred during the fiscal year. Year-end books are closed no later than 90 days after the end of the fiscal year.
- Revenue is always recorded in the month in which it was earned or pledged.

### Journal Entries

Questions to consider in developing Policy:

- For what type of transactions are Journal Entries posted?
- How often are they posted?

Definition: Journal entries are double entries in the accounting system (debit & credit) recording the business transactions of the organization.

Questions to consider in developing Procedures:

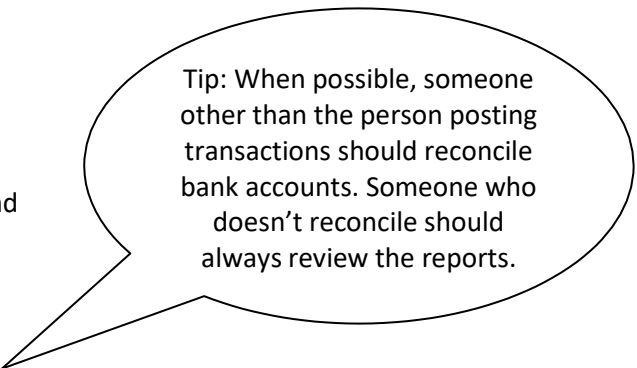
- Who is responsible for writing and posting Journal Entries?
- Who reviews them and when?
- How is approval documented?

## SAMPLE NPO FISCAL POLICIES AND PROCEDURES

Approved by the Board of Directors, DATE

### Bank Reconciliations

SAMPLE Policy: All bank statements will be opened and reviewed in a timely manner. Bank reconciliation and approval will occur within 30 days of the close of the month.



Tip: When possible, someone other than the person posting transactions should reconcile bank accounts. Someone who doesn't reconcile should always review the reports.

SAMPLE Procedures:

- All bank statements and cancelled checks will be opened, reviewed and initialed by the Director of Operations upon receipt.
- Once reviewed, bank statements are submitted to the Office Manager for reconciliation.
- The Executive Director will review and approve reconciliation reports by signing and dating the report in the upper right hand corner.


### Monthly Close

Questions to consider in developing Policy:

- When are books closed? (i.e. by the Xth of the following month)

Questions to consider in developing Procedures:

- What are the basic monthly steps involved in closing the books?
- Who is responsible for these monthly steps?
- Who oversees closing the books and ensures that these steps are completed?



Tip: A sample records retention policy is available at the CompassPoint web site under resources/downloads.

### Recordkeeping

Questions to consider in developing Policy:

- What is the document retention policy (i.e. how long are specific documents maintained and where)?

Questions to consider in developing Procedures:

- How/where are accounting records kept? (locked file cabinet, e-files, etc.)
- How often is filing done and by whom?
- How often are financial records archived and/or shredded and by whom?

Tip: An internal control checklist is available at the CompassPoint web site under resources/downloads.

## Internal Controls

The organization employs several safeguards to ensure that financial transactions are properly authorized, appropriated, executed and recorded.

### Lines of Authority

Questions to consider in developing Policy:

- What is the level of authority for the Board, Executive Director, the top financial manager, and other financial staff? For example, the Board may have authority to approve fiscal policies and be required to review them annually and the Director of Operations may have the authority to approve expenses in accordance with the approved budget.

Definition: Internal controls are a set of policies and procedures to prevent deliberate or misguided use of funds for unauthorized purposes.

Questions to consider in developing Procedures:

- Who approves which elements of the fiscal systems (expenses, budgets, etc.)?
- When and how is approval documented?
- Who develops and approves the fiscal policies themselves?
- Who has the authority to change a fiscal policy, and how often are policies reviewed and changes approved?

### Conflict of Interest

SAMPLE Policy: All employees and members of the Board of Directors are expected to use good judgment, to adhere to high ethical standards, and to act in such a manner as to avoid any actual or potential conflict of interest. A conflict of interest occurs when the personal, professional, or business interests of an employee or Board member conflict with the interests of the organization. Both the fact and the appearance of a conflict of interest should be avoided.

SAMPLE Procedures:

- Upon or before hire, election, or appointment each employee and Board member must provide a full written disclosure of all direct or indirect financial interests that could potentially result in a conflict of interest. Examples include employer, business, and other nonprofit affiliations, and those of family members or a significant other. This written disclosure will be kept on file and will be updated annually and as needed.
- Employees and Board members must disclose any interests in a proposed transaction or decision that may create a conflict of interest. After disclosure, the employee or Board member will not be permitted to participate in the transaction or decision.

Questions to consider:

- What constitutes a conflict of interest for the organization (i.e. funders/board members, clients/staff?)
- What are the consequences and remedies?
- What are the process and requirements for disclosing conflicts?
- How are conflicts identified and resolved and by whom?

## SAMPLE NPO FISCAL POLICIES AND PROCEDURES

Approved by the Board of Directors, DATE

- Should there be any dispute as to whether a conflict of interest exists:
  - The Executive Director shall determine whether a conflict of interest exists for an employee, and shall determine the appropriate response.
  - The Board of Directors shall determine whether a conflict of interest exists for the Executive Director or a member of the Board, and shall determine the appropriate response.

### Segregation of Duties

SAMPLE Policy: The organization's financial duties are distributed among multiple people to help ensure protection from fraud and error. The distribution of duties aims for maximum protection of the organization's assets while also considering efficiency of operations.

Questions to consider in developing Procedures:

How are cash receipt and disbursement functions separated among various roles? Some key considerations include:

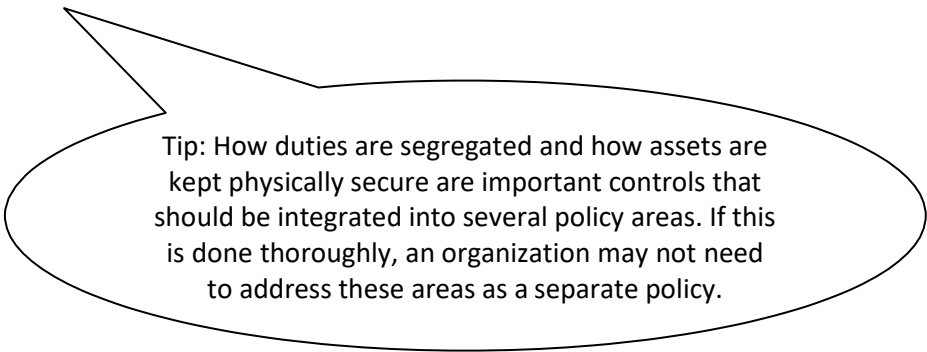
- Check signers should not be involved in expense approval or basic accounting procedures
- Someone outside of the accounting function should open and log all checks received

### Physical Security

SAMPLE Policy: The organization maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to money, securities, real estate and other valuable property.

Questions to consider in developing Procedures:

- Where are blank checks stored? Are they locked up? Do they need to be signed out or accounted for by someone other than the person who cuts checks?
- Do you use passwords to prevent access to accounting software? How often are passwords changed and by whom?
- Where are cash and checks stored? Are bank deposits made regularly (at least weekly)?



Tip: How duties are segregated and how assets are kept physically secure are important controls that should be integrated into several policy areas. If this is done thoroughly, an organization may not need to address these areas as a separate policy.



## Financial Planning & Reporting

The organization's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The presentation of the Financial Statements shall follow the recommendation of the Financial Accounting Standards Board (FASB) No. 117, "Financial Statements of Not-For-Profit Organizations." Under GAAP, revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the organization are classified as unrestricted, temporarily restricted and permanently restricted.

## Budgeting Process

SAMPLE Policy: The organization's annual budget is prepared and approved annually for all departments. The budget is prepared by the Executive Director in conjunction with the Director of Operations and the Board Finance Committee. The budget is to be approved by the Board of Directors prior to the start of each fiscal year. The budget is revised during the year only if approved by the Board of Directors.

### SAMPLE Procedures:

- The Executive Director will work together with the Director of Operations, Director of Development, and all program managers to ensure that the annual budget is an accurate reflection of programmatic and infrastructure goals for the coming year.
- The Director of Operations will ensure that the budget is developed using the organization's standard revenue recognition (p. X) and cost allocation (p. X) procedures.
- The Executive Director, Director of Operations, and the Board Treasurer will present a draft budget to the Finance Committee at least 60 days prior to the end of the fiscal year and at least 30 days prior to its submission to the full Board of Directors.
- The Finance Committee shall review and approve a recommended fiscal year budget and submit it for approval to the Board of Directors. The budget shall contain revenues and expenses forecasted by month. A chart describing monthly cash flow shall be included.
- The Board of Directors will review and approve the budget at its last meeting prior to the start of the fiscal year.

### Questions to consider:

- Who is responsible for developing the organizational budget (Executive Director) and who is involved?
- Who approves it (Board of Directors) and when?
- Under what circumstances would the budget be modified and what are the procedures for that?
- Are there any other specific requirements (i.e. budgeting by month, including a cash flow projection)?

## Internal Financial Reports

SAMPLE Policy: The organization prepares regular financial reports on a monthly basis. All reports are finalized no later than 30 days after the close of the prior month.

### SAMPLE Procedures:

- The Finance Manager is responsible for producing the following year-to-date reports within 30 days of the end of each month: Statement of Financial Position, Statement of Activities, Budget v. Actual and updated Cash Flow Projection.
- The Executive Director, Director of Operations, and Board Finance Committee review financial reports each month, and the Finance Committee presents reports to the full Board of Directors on a quarterly basis.
- On a quarterly basis, the Director of Operations prepares a narrative report that summarizes the organization's current financial position and includes explanations for budget variance.

### Questions to consider:

- What financial reports are created and how often? (may include Statement of Activities, Statement of Financial Position, Budget vs. Actual, Cash Flow Projection, and/or program-specific reports)
- Who prepares the reports and by what date(s)?
- Who reviews which reports (management, finance committee, full board) and when/how often?
- What kind of narrative is included?
- What level of budget variance requires explanation?

## Audit

### Questions to consider in developing Policy:

- Is an audit required? How often?
- By what date is the audit completed each year?
- How often is a new CPA firm hired?

### Questions to consider in developing Procedures:

- Is there an audit committee of the Board? Comprised of how many members and with what responsibility?
- Who hires and oversees the external CPA firm?
- Who serves as the staff liaison to the audit firm?
- How is the audit report presented to the Board of Directors?
- How is the audit report made available to the public?

## Tax Compliance

### Exempt Organization Returns

### Questions to consider in developing Policy:

- Who completes the annual Federal Form 990 and California Form 199?
- By what date are the tax forms filed each year?

## SAMPLE NPO FISCAL POLICIES AND PROCEDURES

Approved by the Board of Directors, DATE

Questions to consider in developing Procedures:

- Who serves as the staff liaison to the tax preparer?
- Who reviews the tax returns prior to filing and who has ultimate approval authority?
- How is the 990 made available to the Board of Directors?
- How is the 990 made available to the public?

### Quarterly/Annual Payroll Reports

Questions to consider in developing Policy:

- Does the organization outsource its payroll tax reporting (i.e. Paychex, ADP, Intuit) or is it prepared internally?

Questions to consider in developing Procedures:

- Who is responsible for preparing employee W2s by January 31 each year, and who oversees this responsibility to ensure accuracy and timeliness?
- Who files quarterly payroll tax reports (941 and DE6) by the filing deadlines and who oversees this responsibility to ensure accuracy and timeliness?

## Revenue & Accounts Receivable

### Invoice Preparation

SAMPLE Policy: All grants and projects are invoiced each month to capture all billable time and expenses and ensure a regular healthy cash flow for the organization. All final invoices for the prior month are completed by the 15<sup>th</sup> of the following month (ex: June 15<sup>th</sup> for May).

SAMPLE Procedures:

- The Finance Manager gathers relevant expense documentation, prepares all invoices, and submits to the Director of Operations for approval by the 10<sup>th</sup> of each month.
- Following approval, the Finance

Manager makes two copies of the invoice. One copy is mailed to the client/customer no later than the 15<sup>th</sup> of the month and one copy is filed in the client folder.

- As part of the monthly close process, the Finance Manager reviews an Accounts Receivable Aging report and alerts the Director of Operations of invoices more than 60 days overdue.
- The Director of Operations determines appropriate collection efforts for long outstanding invoices. The Executive Director is also notified of any receivables that are more than XX days outstanding and/or more than \$XX.

Questions to consider:

- How often are invoices prepared?
- Who prepares invoices and who approves?
- How are records kept?
- Who reviews outstanding receivables and how often?
- At what point are collection efforts undertaken and what are the procedures for collecting old invoices?

## Revenue Recognition

SAMPLE Policy: All contributions will be recorded in accordance with GAAP, with specific attention to standards FASB 116 and 117. Contributions are recorded as pledged or received in accordance with FASB 116, and must be credited to the appropriate revenue lines as presented in the annual budget and coded as designated in the organization's Chart of Accounts.

### SAMPLE Procedures:

- The Director of Operations reviews all revenue in excess of \$5,000 and indicates on the letter or copy of the check how the revenue shall be recognized (as earned/contributed, conditional/unconditional and restricted/unrestricted). If there is a question or uncertainty about how to recognize a particular contribution, the Director of Operations will ensure that the donor is contacted to clarify the intent of the contribution.
- The Finance Manager is responsible for posting revenue to the general ledger in accordance with the determination made by the Director of Operations.

### Questions to consider:

- Who determines how and when revenue is recorded as received and/or released?
- Who posts revenue to the general ledger?

## Cash Receipts

### Questions to consider in developing Policy:

- How do funds generally come into the organization (mail, EFT, cash, etc.) and how are they processed?

Tip: Organizations that receive significant revenue by E-Commerce and/or Cash Transactions should develop specific policies and procedures to ensure that strong controls are in place and the revenue is properly recorded.

### Questions to consider in developing Procedures:

- Who opens the mail, who codes income and who posts receipts in the accounting system?
- Are copies of checks made before depositing? How often and by whom?
- How/when are checks endorsed?
- Where are cash and checks kept until depositing?

## Deposits

### Questions to consider in developing Policy:

- How often are bank deposits made? What is the threshold of time and/or amount (i.e. once a week or when more than \$10,000 has been collected)?

### Questions to consider in developing Procedures:

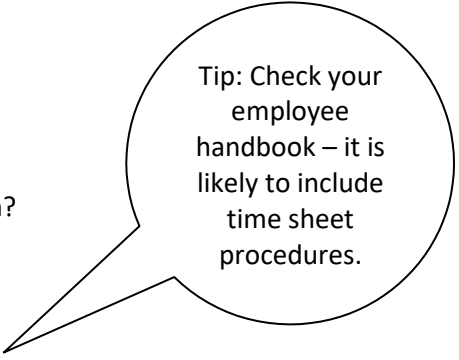
- Who prepares and reviews bank deposit slips?
- Why physically takes checks to the bank?
- Who reviews bank receipts and how are they filed?

## Expense & Accounts Payable

### Payroll

Questions to consider in developing Policy:

- What are the pay periods and pay dates for the organization?
- If payroll is outsourced, to which company, and who is responsible for monitoring that relationship?



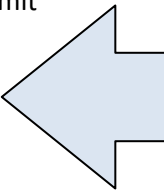
Tip: Check your employee handbook – it is likely to include time sheet procedures.

### Time Sheet Preparation & Approval

SAMPLE Policy: All employees, exempt and non-exempt, are required to record time worked, holidays, leave taken for payroll, benefits tracking, and cost allocation purposes

SAMPLE Procedures:

- Employees complete time sheets and submit them to their supervisors on the due date, based on the schedule produced at the beginning of the year.
- Supervisors review, correct if necessary, sign and submit timesheets to the Finance Manager within three (3) working days from the time sheet due date.
- The Finance Manager is responsible for entering time sheet information into the payroll and accounting systems as needed. All paid time off balances are maintained within the payroll system, based on the information provided on approved timesheets.



Questions to consider:

- How are timesheets submitted (paper, electronic, etc.) and on what dates?
- How is sick and vacation time approved and recorded?
- Who approves employee's time records and how is approval documented?

### Payroll Additions, Deletions, and Changes

Questions to consider in developing Policy:

- Who has overall authority to approve payroll changes? Is written approval required?

Questions to consider in developing Procedures:

- How are employees added to/removed from the payroll system? Who authorizes and with what forms?
- Who has authority to approve salary increases and how is it documented?
- How often and through what procedures can employees request payroll changes (i.e. changes to withholdings, etc.)?

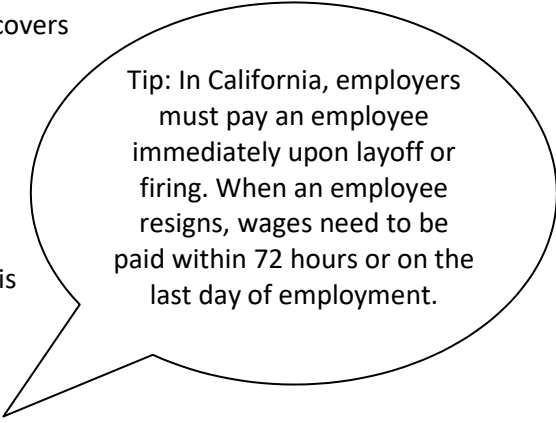
## Payroll Preparation & Approval

Questions to consider in developing Policy:

- What dates of the month/week is payroll prepared?
- Who has primary and secondary responsibility? (i.e. who covers payroll if the primary person is out)

Questions to consider in developing Procedures:

- How are time sheet records entered into the payroll system?
- Who reviews the payroll register to ensure accuracy and legitimacy? When does this happen (i.e. before or after it is submitted)?



Tip: In California, employers must pay an employee immediately upon layoff or firing. When an employee resigns, wages need to be paid within 72 hours or on the last day of employment.

## Pay Upon Termination

Questions to consider in developing Policy:

- Upon voluntary and involuntary termination, when is payroll processed and distributed to the employee?

Questions to consider in developing Procedures:

- Who calculates final paychecks and ensures accuracy of any accrued PTO to be paid?
- Who reviews the final paycheck and who distributes the check to the employee?

## Purchases & Procurement

SAMPLE Policy: Any expenditure in excess of \$XXX for the purchase of a single item should have bids from three (3) suppliers if possible. These bids will be reviewed by the Director of Operations and the bid award must be specifically approved in advance by the Executive Director and Director of Operations.

Questions to consider in developing Procedures:

- Are purchase orders required?
- Who has the authority to authorize purchases?
- How are purchases approved and how is approval documented?

## Independent Contractors

Questions to consider in developing Policy:

- When does the organization use independent contractors? For what type of work?

Questions to consider in developing Procedures:

- Who has the authority to establish contracts?
- Who is responsible for verifying that the person is appropriately classified as an independent contractor and not employee?

## Invoice Approval & Processing

SAMPLE Policy: All invoices must be approved by the manager of the department for which the expense was incurred. Approved invoices will be paid within 30 days of receipt.

### SAMPLE Procedures:

- Invoices and bills will be opened and reviewed by the Office Manager. The Executive Director or Director of Operations will be notified immediately of any unexpected or unauthorized expenses.
- Invoices are then routed to the appropriate department manager for authorization prior to payment being issued. If the expense is greater than \$300 and was not authorized through the purchase order system, either the Executive Director or Director of Operations must also approve the expenditure.
- Copies of all invoices paid will be filed in the finance department. After two years these documents will be archived and they will not be destroyed.

### Questions to consider:

- Who receives and opens invoices?
- How are invoices approved?
- Who enters bills to the accounting system?

## Cash Disbursements

### Questions to consider in developing Policy:

- What kind of documentation is required from vendors (i.e. itemized invoices)?

### Questions to consider in developing Procedures:

- Are check requests required when no invoice is received?
- Who prepares checks? Who signs them? Who mails them?
- How are expenditure records kept?

## Petty Cash

SAMPLE Policy: The Project Coordinator and the Office Manager will each keep a petty cash box not to exceed \$100. Petty cash will be used primarily to purchase office supplies, snacks, delivery tips etc. Petty cash will be kept in a lockbox that is locked in a cabinet. Keys to the cash box and cabinet should be kept on the custodian's person.

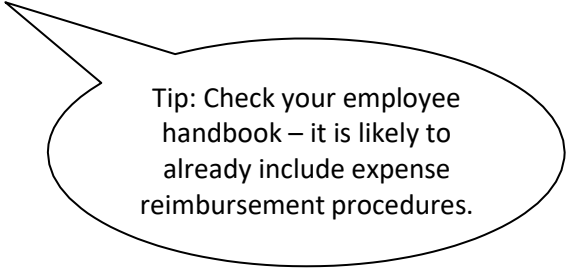
### SAMPLE Procedures:

- The petty cash custodians will be given \$100 to be kept in a lock box locked in their desk.
- When cash is used a record must be entered in the individual's petty cash spreadsheet. Receipts for all purchases are kept in the lock box.
- When cash is low the custodian will submit a check request form signed by their supervisor with a print out of the tracking spreadsheet and all receipts attached.
- A check will be cut in the amount to bring petty cash back to \$100. It is the custodian's responsibility to cash the check and keep track of funds in the box.

## Employee Expense Reimbursements

Questions to consider in developing Policy:

- For what types of expenses can employees be reimbursed?
- Is there a dollar amount limit?
- Is pre-authorization required?



Tip: Check your employee handbook – it is likely to already include expense reimbursement procedures.

Questions to consider in developing Procedures:

- What forms are used to request reimbursement and when are they submitted? How are late submissions handled?
- Who authorizes reimbursement requests? Who authorizes reimbursement requests for THAT person?
- How are reimbursement requests processed and distributed?

## Travel Expenses

Questions to consider in developing Policy:

- What travel expenses are eligible for reimbursement (what types of expenses and for what purposes)?
- Are there standard reimbursement rates for travel (i.e. mileage rates, per diem rates, maximum lodging rates)?
- Is there a pre-approval process for travel outside of the local area?

Questions to consider in developing Procedures:

- Who authorizes travel requests? Who authorizes travel requests for THAT person?
- What documentation needs to be maintained?

## Credit Cards

Questions to consider in developing Policy:

- Are company credit cards issued? To whom and for what purposes?
- Are there limits to appropriate expenditures?

Questions to consider in developing Procedures:

- How are receipts collected and coded? How are they maintained or filed?
- Who enters credit card charges into the accounting system?
- Are credit card statements reconciled regularly and by someone other than the cardholder?
- What steps are taken if an unrecognized charge appears?

## Expense Allocations

Questions to consider in developing Policy:

- What is the basis of cost allocation used by the organization?
- Who is responsible for developing and maintaining the cost allocation system?
- Who approves the system and who is involved in any changes?



Questions to consider in developing Procedures:

- What costs are typically allocated, how are they calculated and how often is this done?
- Who is responsible for creating and posting allocation entries and how often is this done?

## Asset Management

### Cash Management and Investments

Questions to consider in developing Policy:

- Who is responsible for administering investment accounts and what other professional advice is sought?
- What is the organization's risk tolerance/risk preference?
- Are there restrictions on how or where the organization can invest?

Questions to consider in developing Procedures:

- Where are bank accounts held and who has access?
- Is there a threshold at which cash should be transferred from an operating account to an interest-bearing account? Who is authorized to make this transfer and with what approval?

### Capital Equipment

Questions to consider in developing Policy:

- What is the organization's capitalization policy (at what dollar amount and years of useful life is an item capitalized rather than expensed)?

Questions to consider in developing Procedures:

- How is inventory of capitalized items kept? Who has oversight?
- What depreciation method is used and who maintains the schedules?
- How often is depreciation posted to the general ledger and by whom?
- What are the procedures for disposing of assets when they are no longer in use?

### Employee Retirement Accounts

Questions to consider in developing Policy:

- Does the organization offer a retirement account to its employees?
- Is there an employer contribution to these accounts? If so, how much and how is it determined?

Questions to consider in developing Procedures:

- Who is responsible for ensuring compliance with ERISA requirements?
- What procedures are in place to ensure that employee contributions are properly withheld from payroll and transmitted to the accounts within the required time period?

## Operating Reserve

SAMPLE Policy: The target minimum operating reserve fund for the organization is three (3) months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services.

### SAMPLE Procedures:

- The amount of the operating reserve will be calculated each year after approval of the annual budget, reported to the Finance Committee and Board of Directors, and included in regular financial reports.
- The operating reserve will be funded with surplus unrestricted operating funds.

The Board of Directors may from time to time direct that a specific source of revenue be set aside for operating reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

- To use the operating reserves, the Executive Director will submit a request to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve (12) months to restore the operating reserve fund to the target minimum amount.

### Questions to consider:

- Does the organization have a policy to maintain an operating reserve at a certain level (a specific dollar amount or months of expenses?)
- Is the operating reserve available in cash maintained in a segregated bank account or investment fund or will it be commingled with the general cash and investment accounts of the organization?
- Who can authorize use of this reserve and for what types of purpose?
- How is the status of the operating reserve monitored and reported to the Board of Directors?