

Financial Management Policy
[Your Council]
Resource Conservation and Development Council
(HVRC&D)

ADOPTED BY **[YOUR COUNCIL]** RESOURCE CONSERVATION & DEVELOPMENT
COUNCIL, INC., BOARD OF DIRECTORS

Date: September 24, 2012

FINANCIAL MANAGEMENT POLICY AND PROCEDURES

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INTRODUCTION

The purpose of financial management in the operation of all [Your Council] RC&D activities is to fulfill the organization's Mission in the most effective and efficient manner, and to remain accountable to government nonprofit oversight agencies, stakeholders, including clients, partners, funders, employees, and the community. In order to accomplish this, [Your Council] RC&D commits to provide accurate and complete financial data for internal and external use by the Executive Director and the Board of Directors.

These procedures have been approved by the Board of Directors. Exceptions to written policies may only be made with the prior approval of the Board of Directors. Changes or amendments to these policies may be approved by the Board of Directors at any time. A complete review of the policies shall be conducted every two years. Every Director and every Staff with financial related responsibility is expected to be familiar with and operate within the parameters of these policies and guidelines.

ADOPTED BY [YOUR COUNCIL] RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC., BOARD OF DIRECTORS

Date: September 24, 2012

AUTHORITY

The Board of Directors is ultimately responsible for the financial management of all activities.

The Treasurer is authorized to act on the Board's behalf on financial matters when action is required in advance of a meeting of the Board of Directors and within the parameters of past Board Direction.

The Executive Director is responsible for the day-to-day financial management of the organization. The Board authorizes the Executive Director to hire and supervise staff and independent consultants, pay bills, receive funds, and maintain bank accounts.

The Executive Director, Treasurer or Board Chair is authorized to sign non-payroll checks up to \$2,500.00. Non-payroll checks for amounts greater than \$2,500.00 shall require the signature of the Treasurer or Board Chair.

The Executive Director is authorized to enter into contracts for activities that have been approved by the Board as a part of budgets or documented plans. The Board of Directors must authorize any contracts outside of these parameters and all contracts with a financial value greater than \$15,000.

The Executive Director is authorized to manage expenses within the parameters of the overall approved budget, reporting to the Board of Directors on variances and the reason for these variances.

RESPONSIBILITIES

The Executive Director shall:

- Account for donor restricted and Board designated funds separately from general operating funds, and clearly define the restrictions applicable to these funds.
- Report the financial results of [Your Council] RC&D operations on the schedule established by the Audit Committee, but at least quarterly.
- Pay all obligations and file required reports in a timely manner.
- Make no contractual commitment for bank loans, corporate credit cards, or for real estate lease or purchase without specific approval of the Board.
- Record fixed assets with a purchase price of \$500 and above in accounting records as capital assets. Depreciation of capital assets will not exceed five years for furniture and equipment or three years for computer and other technology equipment.
- Limit vendor credit accounts to prudent and necessary levels.
- Obtain competitive bids for items or services costing in excess of \$5,000 per unit. Selection will be based on cost, service and other elements of the contract. [Your Council] RC&D may award the bid to any provider and is not required to accept the lowest cost proposal.

The Board of Directors shall:

- Review and approve, subject to audit, financial reports at each board meeting.
- Provide adequate training to members to enable each member to fulfill their financial oversight role.

BUDGET

In order to ensure that planned activities minimize the risk of financial jeopardy and are consistent with Board approved priorities, long-range organization goals, and specific five-year objectives, the Executive Director shall:

- Submit operating and capital budgets to the Audit Committee in time for reasonable approval by the Board prior to each fiscal year.
- Use responsible assumptions and projection background, with a general goal of an unrestricted surplus.

FINANCIAL TRANSACTIONS WITH INSIDERS

General

No advances of funds to employees, officers, or directors are authorized.

In no case shall [Your Council] RC&D borrow funds from any employee, officer, or director of the organization without specific authorization from the Board of Directors.

Direct and necessary expenses including travel for meetings and other activities related to carrying out responsibilities shall be reimbursed.

Requests for reimbursement will be supported by a statement of the business reason for expense. The request will be adequately accounted for with an invoice of payment and submitted within a reasonable time period, generally within the pay-period of receipt of the invoice.

Payroll and Contract Payments

Staff other than Executive Director:

- The Executive Director will review and certify payable any timesheets or requests for contract payments for persons other than his or her self. Once certified the request for payment will be forwarded to the bookkeeper for processing.
- The Bookkeeper will enter payment amounts in accordance with the chart of accounts and prepare the check for signature.
- The Chair, Secretary/Treasurer or Executive Director is authorized to sign employee payroll and contractor payment checks, other than the Executive Director's. The bookkeeper will facilitate timely signing of these checks by requesting authorized signature from individuals in the order listed above.

Executive Director:

- The Executive Director will submit his or her request for payment directly to the Chair or their representative for review and recommendation for payment. The request for payment will then be reviewed and forwarded to the bookkeeper for processing.
- The Bookkeeper will enter payment amounts in accordance with the chart of accounts and prepare the check for signature.
- The Chair or Secretary/Treasurer is authorized to sign checks for payment of the executive director. The bookkeeper will facilitate timely signing of these checks by requesting authorized signature from individuals in the order listed above.

Direct and Necessary Expenses

Direct and necessary expenses may include any payable item directly related to or caused by operational activities of the organization. Expenses must be directly or indirectly related to the mission of [Your Council] RC&D. Specific expenses and reimbursement may include:

- Local business mileage: at current IRS rate unless Board restricted
- Travel costs: actual cost (air fare preapproved by supervisor)
- Overnight travel (lodging and meals): actual cost (lodging rate preapproved by supervisor)
- Books and subscriptions: pre-approved by supervisor
- Continuing education: preapproved by supervisor

- Other direct and necessary expenses: \$50.00 limit per purchase for program managers

Employee mileage to and from their residence will not be paid by [Your Council] RC&D.

Cost of meals will only be reimbursed when an employee is in travel status. Employees will be required to save and submit receipts for all meals for reimbursement. Alcoholic beverages are not approved for reimbursement.

When the employee returns from their trip, a disbursement request for all travel costs shall be submitted to the Executive Director, with all supporting documentation attached.

GIFT ACCEPTANCE

[Your Council] RC&D will accept stock or other negotiable instruments as a vehicle for donors to transfer assets to the organization. Transfer and recording the value of the asset shall be done in a consistent manner and in compliance with nonprofit accounting standards. The Executive Director shall sell any stock given to the organization immediately upon receipt by the organization.

[Your Council] RC&D shall accept contributions of goods or services other than cash that are related to the programs and operations of [Your Council] RC&D. Any other contributions of non-cash items must be reviewed and approved by the Board of Directors before acceptance.

ASSET PROTECTION

General

In order to ensure that the assets of [Your Council] RC&D are adequately protected and maintained, the Board of Directors shall:

- Insure against theft and casualty losses to the organization and against liability losses to Board members, staff, or the organization itself to levels indicated in consultation with suitable professional resources.
- Plan and carry out suitable protection and maintenance of property, building, and equipment.
- Avoid actions that would expose the organization, its Board, or staff to claims of liability.
- Protect intellectual property, information and files from unauthorized access, tampering, loss, or significant damage.
- Receive, process, and disburse funds under controls that are sufficient to maintain basic segregation of duties to protect bank accounts, income receipts, and payments.

INTERNAL CONTROLS

General

Internal controls have been implemented to best protect the assets of [Your Council] RC&D. Currently, the accounting for [Your Council] RC&D is performed by a contracted bookkeeper, therefore, the separation of duties is implemented by requiring review and authorization be performed by the Executive Director, and ultimately by the Treasurer of the Board of Directors. All activity is thoroughly monitored during the review of financial statements by the Audit committee and the annual audit. The Council also reviews financial statements at regular meetings of the Board.

The accounting procedures can be best outlined with the following activities and the applicable participants:

- **Incoming mail** – The board will designate who will receive and open all mail. The mail will be date stamped and signed if necessary to notate that the item has been reviewed and further action, if necessary, be taken. The mail is then distributed to the appropriate individual.
- **Authorize payment/Receipt of funds** – After review by the Executive Director, all checks for deposit and bills to be paid are processed by the Bookkeeper. The Bookkeeper facilitates the payment process and secures authorized signatures. The final internal control step is to have all disbursements reviewed and authorized by the Treasurer of the Board and presented at the next Board of Directors meeting.
- **Bank Reconciliations** – The Executive Director reviews all bank statements and cancelled checks. The bank statement and computer generated reconciliation report are prepared by the Bookkeeper and presented to the Executive Director.
- **Financial Statements** – The financial statements are prepared by the Bookkeeper, reviewed by the Executive Director, reviewed by the Audit Committee of the Board of Directors, approved by the Board of Directors, and ultimately scrutinized for validity through the annual audit.
- **Annual Audit** – an annual audit is performed to obtain reasonable assurance about whether the financial statements and its' supporting documents are free of material misstatements. At a minimum, an external review will be conducted at least every three years. Internal audits conducted by the audit committee are allowed in other years when thresholds for official audit are not met.
- **Check Management**
 - One signature is required on all [Your Council] RC&D Council checks up to \$5,000.00. Two signatures required for amounts over \$5,000.00.
 - After the checks are signed, the bottom voucher of the check is attached to the supporting documentation which shows check number, date, to whom the check was written, the invoice and amount paid.
 - Paid checks and vouchers are filed numerically with support attached. When the cancelled check arrives with the bank statement, it is filed with the paid checks and vouchers. Checks will be stored with bookkeeper for the current fiscal year. After the IRS 990 is completed documentation will be transferred to the official files of the Council.

- All checks are pre-numbered and accounted for quarterly.
- All voided checks must be defaced and retained either on the check stub or filed in chronological order with canceled checks.
- No checks may be written to "cash" or "bearer".
- Blank checks are stored in a locked drawer or safe.
- Blank checks may never be signed in advance.
- The account payable/cash disbursement ledger is reconciled with the general ledger by the Bookkeeper on a quarterly basis.
- Exceptions allowed only when warranted and are to be reviewed by the executive committee or Board of Directors at their next held meeting.

Payroll Controls

No policy at this time.

COST ACCOUNTING RECORDS

The primary accounting system used for tracking funds by source (Cost Accounting) is through the Statement of Profit and Loss by class produced by the QuickBooks accounting software currently in use by [Your Council] RC&D. The Statement of Profit and Loss by class is compared to the budget for each funding source to track project performance.

The secondary cost accounting system in place is Excel, where all funding source receipts and expenditures are tracked. Reports from QuickBooks are compared to the data entered in Excel. This step ensures accuracy of computerized records. It also provides for effective control over and accountability for all funds, property and other assets, including ensuring that all such assets are used solely for authorized purposes.

Fund reporting to outside sources: Reports from both the primary and secondary cost accounting systems are provided to funding sources to verify reasonableness, allocability and allowability of costs per contract. They are also provided as supporting documentation during audits, both internal and external.

COST ALLOCATION PLAN

The cost allocation plan will be updated on a quarterly basis, or as required by the oversight agency, for the primary cost plan and annually for the special indirect cost plan, allowable, allocable expenses will be allocated to all activities, including fund-raising, according to a multiple allocation base method in accordance with OMB Circular A-122, Cost Principles for Non-Profit Organizations.

The primary cost base is direct program expenses. If any unusual expenses occur that would make allocation inequitable, they will be excluded.

Allocable indirect costs include, but not exclusively, the following types of expenses: Payroll, Building maintenance and supplies, computer equipment, bookkeeping, postage, rent, office supplies and telephone. All allocable expenses will be coded to General Expenses: Administration.

Total allocable indirect costs will be divided by total direct expenses; net of large distorting items, to establish the indirect cost rate. This rate will be multiplied by the total allowable direct costs in order to calculate indirect cost for each activity. Allocable indirect expenses will be allocated to respective programs quarterly.

FINANCIAL REPORTING

[Your Council] RCD follows an accrual basis of accounting and records and reports all financial activity according to Generally Accepted Accounting Principles (GAAP).

The financial statement package includes a Balance Sheet (assets, obligations, both liquidated and not, and deferred revenues), a budget vs. actual Income Statement (providing accountability of application of funds by project), a Statement of Cash Flows and a Net Asset Detail Report. This package provides management and the Board of Directors a means by which to make informed decisions regarding the financial health, stability and direction of [Your Council] RCD.

The preparation of the Financial Statements includes, but is not limited to the following activities:

- Reconciliation of all Balance Sheet accounts.
- Verification of all expenses recorded on the Statement of Profit and Loss by Class. (Classes are established for all funding sources in order to adequately identify the source and application of funds for all federal and non-federally sponsored activities. Close evaluation of classes also ensures accurate, current and complete disclosure of the financial results of each project or program. It also allows for management to relate financial data to performance data and develop unit cost information if necessary.)
- Budget vs. Actual analysis is reviewed at this time to track performance of each program and to provide for a comparison of outlays with budget amounts for each award, including, where appropriate, information related to performance and unit cost.
- Preparation and posting of standard journal entries after approval by the Executive Director.
- Preparation and analysis of the Net Asset Detail Report. This report establishes and reports all current obligations of cash on hand by detailing the composition of deferred revenue from the Balance Sheet and net income and expense from the Statement of Profit and Loss. This provides management and the Board of Directors additional control of funds received on behalf of the Grantors. The Net Asset Detail Report, along with the Balance sheet, provide for effective control over and accountability for all funds, property and other assets, including ensuring that all such assets are used solely for authorized purposes.

OPERATING RESERVES – MULTIPLE RESERVES

PURPOSE

The purpose of the Reserves policy for [Your Council] RC&D is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization and to provide a source of internal funds for organizational priorities such as building repair and improvement, program opportunity, and capacity building.

The Reserves policy will be implemented in concert with the other governance and financial policies of [Your Council] RC&D and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

DEFINITIONS AND GOALS

Operating Reserve

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention [Your Council] RC&D for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs measured for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to both internal and external changes.

The target minimum Operating Reserve Fund is equal to three 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. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

The amount of the Operating Reserve fund target minimum will be calculated each year after approval of the annual budget, reported to the Audit Committee/Board of Directors, and included in the regular financial reports.

Building and Capital Asset Reserve

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of buildings, leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs.

The target amount of the Building and Capital Asset Reserve will be determined by the Board of Directors annually in the budget development process.

Opportunity Reserve

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income. The Opportunity Reserve is also intended as a source of internal funds for organizational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity.

The target amount of the Opportunity Reserve will be determined by the Board of Directors annually in the budget development process.

ACCOUNTING FOR RESERVES

The Reserve Funds will be recorded in the financial records as Board Designated (Operating, Building & Asset or Opportunity) Reserve. The Fund will be funded and available in cash or cash equivalent funds. Reserves will be maintained in a segregated bank account, identified as board restricted funds, or in an investment fund, in accordance with investment policies.

FUNDING OF RESERVES

The Operating Reserve fund 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 could include one-time gifts or bequests, special grants, or special appeals.

The Building and Capital Assets Reserve will be funded by setting aside the amount of cash as established by the Board of Directors.

The Opportunity Reserve fund will be funded with occasional special designations made by the Board of Directors.

USE OF RESERVES

Use of the Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

The Executive Director and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be needed and replenished.

2. Authority to use reserves.

Authority for use of up to \$2,500.00 of Reserves is delegated to the Executive Director in consultation with the Treasurer and/or Chair Board of Directors. The use of Reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Executive

Director must receive prior approval from the Executive Committee/Board of Directors for use of Reserves in excess of \$2,500.00.

3. Reporting and monitoring.

The Executive Director is responsible for assuring that the Reserve funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve funds, the Executive Director will maintain records of the use of funds and plan for replenishment, if required. He/she will provide regular reports to the Board of Directors of progress to restore the fund to the target minimum amount, if required.