

**SAMPLE NPO**

# **Fiscal Policies & Procedures**

Approved by the Board of Directors, DATE

# SAMPLE NPO Fiscal Policies & Procedures

## Table of Contents

<b>Accounting Procedures .....</b>	<b>1</b>
Basis of Accounting.....	1
Journal Entries.....	1
Bank Reconciliations.....	1
Monthly Close.....	2
Recordkeeping.....	2
<b>Internal Controls .....</b>	<b>2</b>
Lines of Authority.....	2
Conflict of Interest.....	2
Segregation of Duties .....	3
Physical Security.....	3
<b>Financial Planning &amp; Reporting .....</b>	<b>3</b>
Budgeting Process.....	3
Internal Financial Reports .....	4
Audit.....	4
Tax Compliance .....	4
<i>Exempt Organization Returns .....</i>	<i>4</i>
<i>Quarterly/Annual Payroll Reports .....</i>	<i>5</i>
<b>Revenue &amp; Accounts Receivable.....</b>	<b>5</b>
Invoice Preparation .....	5
Revenue Recognition .....	5
Cash Receipts.....	6
Deposits .....	6
<b>Expense &amp; Accounts Payable.....</b>	<b>6</b>
Payroll .....	6
<i>Time Sheet Preparation &amp; Approval.....</i>	<i>6</i>
<i>Payroll Additions, Deletions, and Changes.....</i>	<i>6</i>
<i>Payroll Preparation &amp; Approval.....</i>	<i>7</i>
<i>Pay Upon Termination .....</i>	<i>7</i>
Purchases & Procurement .....	7
Independent Contractors .....	7
Invoice Approval & Processing .....	7
Cash Disbursements .....	8
Petty Cash .....	8
Employee Expense Reimbursements .....	8
<i>Travel Expenses .....</i>	<i>8</i>
<i>Credit Cards.....</i>	<i>9</i>
Expense Allocations.....	9
<b>Asset Management .....</b>	<b>9</b>
Cash Management and Investments .....	9
Capital Equipment.....	9
Employee Retirement Accounts .....	9
Operating Reserve.....	9

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

## **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.

#### **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**

#### **Policy:**

#### **Procedures:**

- Procedure A
- Procedure B

### **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.

#### **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.

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **Monthly Close**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Recordkeeping**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Internal Controls**

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

### **Lines of Authority**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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.

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

- 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.
- 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.

#### **Procedures:**

- Procedure A
- Procedure B

### **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.

#### **Procedures:**

- Procedure A
- Procedure B

### **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 NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **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.

### **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.

### **Audit**

#### **Policy:**

#### **Procedures:**

- Procedure A
- Procedure B

### **Tax Compliance**

#### **Exempt Organization Returns**

#### **Policy:**

#### **Procedures:**

- Procedure A
- Procedure B

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **Quarterly/Annual Payroll Reports**

#### **Policy:**

#### **Procedures:**

- Procedure A
- Procedure B

## **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**.

### **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.

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **Cash Receipts**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Deposits**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

## **Expense & Accounts Payable**

### **Payroll**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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.

### **Payroll Additions, Deletions, and Changes**

**Policy:**

**Procedures:**

- Procedure A

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **Payroll Preparation & Approval**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Pay Upon Termination**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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.

**Procedures:**

- Procedure A
- Procedure B

### **Independent Contractors**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

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.

### **Cash Disbursements**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Travel Expenses**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

### **Credit Cards**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Expense Allocations**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

## **Asset Management**

### **Cash Management and Investments**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Capital Equipment**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **Employee Retirement Accounts**

**Policy:**

**Procedures:**

- Procedure A
- Procedure B

### **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

## **SAMPLE NPO FISCAL POLICIES AND PROCEDURES**

Approved by the Board of Directors, **DATE**

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.