APPENDIX 5B

SAMPLE ORGANIZATION

FINANCIAL POLICIES

FEBRUARY 2017

INTRODUCTION AND MISSION

The Sample Organization is a 501 (c) (3) organization. Sample Organization’s mission is _____________________________________________.

This document contains accounting and financial policies used to guide the fiscal operations of the organization.

GENERAL POLICIES

ORGANIZATIONAL STRUCTURE

The Role of the Board of Directors. As a nonprofit corporation, SAMPLE ORGANIZATION is subject to exempt organization law and is governed by its Board of Directors, responsible for the oversight of the organization by:

1. Managing its business, property, and affairs
2. Planning for the future
3. Establishing broad policies
4. Identifying and proactively dealing with emerging issues
5. Establishing and communicating the organization’s mission
6. Establishing and maintaining programs and systems designed to assure compliance with applicable nonprofit laws and regulations

In accordance with the by-laws of the organization, the Board of Directors is the governing body of SAMPLE ORGANIZATION. The officers of the corporation are elected by the Board of Directors and serve at the direction of the Board. Officers include the President, Vice-President, Secretary, and Treasurer.

Committees. Committees may be established by the President from time to time, and members of Committees shall be appointed by a majority vote of the Board. Committees may be enlarged to include persons other than members of the Board. However, members of the Board must always constitute a majority of a Committee.
The Role of the Treasurer. The Treasurer or his or her authorized agent shall have custody and control of all funds of the Coalition; ensure that a true and accurate accounting of the financial transactions of the Coalition is made periodically, and that reports of such transactions are presented to the Board; assure that all accounts payable are presented in the manner as the Board may direct for authorization of payment; and perform all duties incident to the Office of the Treasurer and such other duties as may be assigned by the President or by the Board.

The Role of the Executive Director/CEO (CEO). According to the By-Laws of the Corporation, the CEO shall administer the day-to-day financial operations of the Sample Organization (SAMPLE ORGANIZATION); shall serve as its official as directed by the Board of Directors; shall supervise all administrative and program staff; shall submit bimonthly financial reports and projections to the Board; shall prepare an annual report; and shall consult with the Treasurer to file required financial and legal documents. In practice, the CEO designates the day to day financial operations to finance staff.

Accounting Operations. SAMPLE ORGANIZATION uses the accepted not-for-profit GAAP accounting procedures and policies. A yearly audit is performed by an outside auditing firm, including any ancillary audits such as the Federal A133. SAMPLE ORGANIZATION uses (software name, version) for its accounting system.

BUSINESS CONDUCT

Conflict of Interest Policy. This Conflict of Interest Policy governs the activities of the board and staff of SAMPLE ORGANIZATION. Questions about the policy should be directed to the Secretary of the Board. It is the duty of all board members and staff to be aware of this policy, and to identify conflicts of interest and situations that may result in the appearance of a conflict and to disclose those situations/conflicts/or potential conflicts to

i. the employee’s supervisor;
ii. the CEO or other senior executive officer;
iii. the Chair of the Board; or
iv. the Compliance officer, HR Department, or other designated person, as appropriate.

This policy provides guidelines for identifying conflicts, disclosing conflicts and procedures to be followed to assist SAMPLE ORGANIZATION’s management of conflicts of interest and situations that may result in the appearance of a conflict.

1. What is a conflict of interest? A conflict of interest arises when a board member or staff member has a personal interest that conflicts with the interests of SAMPLE ORGANIZATION or arises in situations where a board/staff member has divided loyalties (also known as a “duality of interest”). The former can lead to situations that result in inappropriate financial gain to persons in authority at SAMPLE ORGANIZATION, which can lead to financial penalties and violations of IRS regulations. Similarly, situations or transactions arising out of a conflict of interest can result in either inappropriate financial gain or the appearance of a lack of integrity in SAMPLE ORGANIZATION’s decision-making process. Both results are damaging to SAMPLE ORGANIZATION and are to be avoided.
Sample Organization

○ *Example 1:* a person in a position of authority over the Organization may benefit financially from a transaction between the Organization and the board/staff member; or others closely associated with the board/staff member may be affected financially. Family members, or their businesses, or other persons or the businesses of persons with whom the board/staff member is closely associated, could benefit from similar transactions.

○ *Example 2:* A conflict of interest could be a direct or indirect financial interest such as those described above, or a personal interest such as the situation where a board member of SAMPLE ORGANIZATION is also a board member of another nonprofit or for-profit entity in the community with which SAMPLE ORGANIZATION collaborates or conducts business.

2. **Who might be affected by this policy?** Typically, persons who are affected by a conflict of interest policy are the Organization’s board members, officers, and senior staff. In some cases, a major donor could also be in a conflict situation. SAMPLE ORGANIZATION takes a broad view of conflicts and board/staff are urged to think of how a situation/transaction would appear to outside parties when identifying conflicts or possible conflicts of interest.

3. **Disclosure of Conflicts.** Board members and senior staff will annually disclose and promptly update any disclosures previously made to the Chairman of the Board in the section below that requests them to identify their interests that could give rise to conflicts of interest, such as a list of family members, substantial business or investment holdings, and other transactions or affiliations with businesses and other organizations or those of family members as well as other nonprofit organizations. Board and staff are also urged to disclose conflicts as they arise as well as to disclose those situations that are evolving that may result in a conflict of interest. Advance disclosure must occur so that a determination may be made as to the appropriate plan of action to manage the conflict. Staff should disclose to their supervisor or a senior executive officer and board members should disclose to the board/Chairman of the Board as soon as the person with the conflict is aware of a conflict/potential conflict or the appearance of a conflict exists.

4. **Procedures to manage conflicts.** For each interest disclosed, the Chairperson of the board will determine whether the organization should:

a. take no action;

b. disclose the situation more broadly and invite discussion/resolution by the full board of what action to take; or

c. refrain from taking action and otherwise avoid the conflict.

  When the conflict involves a decision-maker, the person with the conflict ("interested party"):

  i. must fully disclose the conflict to all other decision makers;

  ii. may not be involved in the decision of what action to take (e.g., may not participate in a vote) but may serve as a resource to provide other decision makers with needed information.

In some cases the person with the conflict may be asked to recuse him/herself from sensitive discussions so as not to unduly influence the discussion of the conflict.

In all cases, decisions involving a conflict will be made only by disinterested persons.
The fact that a conflict was managed and the outcome will be documented in the minutes of board meetings if the conflict was related to a board member, and reported by the Chairman of the Board if the conflict was related to a staff member. The Chairman of the Board will monitor proposed or ongoing transactions of the organization (e.g., contracts with vendors and collaborations with third parties) for conflicts of interest and disclose them to the Board and staff, as appropriate, whether discovered before or after the transaction has occurred.

**Internal Controls.** Sample Organization employs several safeguards to ensure that financial transactions are properly authorized, appropriated, executed and recorded. Segregation of duties is a primary feature of the internal control system so that each transaction is reviewed by more than one person.

**Lines of Authority.** Approval authority for all purchase and disbursements are outlined in the policy for these areas. The Board of Directors approves the organization’s annual budget and individual managers have been assigned levels of authority for the transactions within their area of operations. Review of individual transactions is performed by divisional managers and all transactions are reviewed in the accounting department based on authority delegated to that division. The approval authority is based on cost center coding, line item coding and specified dollar limits.

**Segregation of Duties.** Sample 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.

**Physical Security.** Sample Organization maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to cash, securities, and other valuable property. A list of authorized persons is maintained in the finance office.

**FRAUD POLICY**

**Scope.** This policy applies to any fraud or suspected fraud involving employees, officers, volunteers or directors, as well as members, vendors, consultants, contractors, funding sources and/or any other parties with a business relationship with SAMPLE ORGANIZATION. Any investigative activity required will be conducted without regard to the suspected wrongdoer’s length of service, position/title, or relationship with SAMPLE ORGANIZATION.

**Policy.** Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Any fraud that is detected or suspected must be reported immediately to the CEO and to the Treasurer.

**Actions Constituting Fraud.** The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

1. Any dishonest or fraudulent act;
2. Forgery or alteration of any document or account belonging to SAMPLE ORGANIZATION;
Sample Organization  5

3. Forgery or alteration of a check, bank draft, or any other financial document;
4. Misappropriation of funds, securities, supplies, equipment, or other assets of SAMPLE ORGANIZATION;
5. Impropriety in the handling or reporting of money or financial transactions;
6. Disclosing confidential and proprietary information to outside parties;
7. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to SAMPLE ORGANIZATION. Exception: gifts less than a nominal $50 value, which are to be reported to Human Resources;
8. Destruction, removal or inappropriate use of documents, furniture, fixtures, and equipment;
9. Any similar or related irregularity.

Other Irregularities. Irregularities concerning an employee, volunteer, officer or director’s moral, ethical, or behavioral conduct shall be resolved by CEO in collaboration with the Board Chair. If there is a question as to whether an action constitutes fraud, contact the CEO.

Investigation Responsibilities. The Board of Directors has the primary responsibility for investigation of all suspected fraudulent acts as defined in the policy. Board of Directors may utilize whatever internal and/or external resources considered necessary in conducting an investigation.

Board of Directors decisions regarding whether to prosecute the offender(s), and the final disposition of the case, will be made consistent with the terms of any applicable insurance policies. Further, the Board of Directors may decide, upon consultation with legal counsel, to refer the results of the investigation to the appropriate law enforcement, governmental or regulatory agency.

Reporting Procedures and Confidentiality. Any employee who suspects dishonest or fraudulent activity is required to notify the CEO immediately, and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act. The CEO will treat all information received confidentially. Employees reporting suspected fraudulent activity are prohibited from discussing the allegation(s) with anyone unless specifically asked to do so by the CEO.

PRIMARY FINANCIAL OBJECTIVE. Sample Organization’s ability to pay bills, meet emergency shortfalls, fund growth, and maintain flexibility is critical to the organization’s financial health. Good practice require that liquidity be measured and actively managed and reported as a key performance indicator in quarterly board reports.

TARGET LIQUIDITY. This important indicator is measured as the amount of cash and cash equivalents plus our unused line of credit. The liquidity target is to be set each fiscal year as a part of the budgeting process. The actual liquidity is to be reported each quarter against the targeted amount and variances analyzed and reported.

UNRESTRICTED RESERVES. The amount of unrestricted net assets represents the fund balance set aside to stabilize Sample Nonprofit’s finances by providing a cushion against unexpected events, losses of income or large unbudgeted expenses. Operating reserves are not to be used to cover long-term or permanent income shortfalls. The operating reserve should be used to solve temporary problems, not structural ones. In the case of Sample Organization, the operating reserve should not be more than two years budgeted expenses.
CASH FORECASTING. In order to focus attention on both target liquidity and operating reserves, regular cash forecasting should be performed by the finance office. Cash forecast reports should be provided to the Treasurer and Finance Committee each month and also be included in the quarterly board finance report.

SECURITY

GENERAL OFFICE SECURITY. SAMPLE ORGANIZATION’s offices are located at (SAMPLE’s Address).

All keys and security codes shall be managed by and returned to the Administration Office or site director when an employee leaves the employment of SAMPLE ORGANIZATION.

SAMPLE ORGANIZATION corporate seals are stored in a file cabinet kept in the Administration Office.

All keys issued to Finance Office employees, including building key, key to his/her office door, and any filing cabinet keys, shall be returned to the Administration Office when an employee leaves employment with the SAMPLE ORGANIZATION.

ACCESS TO ELECTRONICALLY STORED ACCOUNTING DATA. The Finance Office utilizes accounting software to perform the general ledger, accounts payable, and payroll functions. It is the policy of the Finance Office to utilize passwords to restrict access to accounting software and data. Only duly authorized accounting personnel with data input responsibilities will be assigned passwords that allow access to the system. The CEO is responsible for granting passwords for access to all finance and database programs and to online banking systems, along with the appropriate levels of access. An external information technology vendor may be used to assist with maintaining and upgrading, as necessary, computer hardware and software used by the bookkeeper/accountant.

All personnel are expected to keep their passwords secret and are encouraged to change their passwords on a regular basis. Each password enables a user to gain access to only the software and data files necessary for each employee’s required duties.

COMPUTER CONTROLS POLICY. Sample Software is used as the accounting/general ledger software.

The Bookkeeper and Director of Finance have access to the general ledger.

Each individual with access to Sample Software has a unique user ID and password. In addition, the CEO serves as the administrator; therefore, she has a separate user ID and password. The administrator has the ability to give rights in addition to obtaining logs to see who has accessed. The passwords are required to be changed every six months.

Since Sample Software is a cloud based software program, no backups are necessary. SAMPLE ORGANIZATION utilizes Sample Software for payroll processing. The bookkeeper and accountant both have access to the online information. Each individual has a unique user id and password. All reports, however, are provided directly to the Director of Finance.

GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of SAMPLE ORGANIZATION, and is supported by subsidiary ledgers that provide
Sample Organization

Details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports.

**CHART OF ACCOUNTS OVERVIEW.** The chart of accounts is the framework for the general ledger system, and therefore the basis for SAMPLE ORGANIZATION’s accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense and gain and loss account.

SAMPLE ORGANIZATION’s chart of accounts is comprised of five types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues
5. Expenses

**DISTRIBUTION OF CHART OF ACCOUNTS.** All the Finance Office employees involved with account coding responsibilities (assignment or review of coding) or budgetary responsibilities will be issued a current chart of accounts. As the chart of accounts is revised, an updated copy of the chart of accounts shall be distributed to these individuals promptly.

**CONTROL OF CHART OF ACCOUNTS.** SAMPLE ORGANIZATION’s chart of accounts is monitored and controlled by the bookkeeper with assistance from the outsourced accountant. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the CEO, who ensures that the chart of accounts is consistent with the organizational structure of SAMPLE ORGANIZATION.

**ACCOUNT DEFINITIONS**

*General Ledger*

<table>
<thead>
<tr>
<th>Account Range</th>
<th>Category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000–1275</td>
<td>Assets</td>
<td>Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. Assets of SAMPLE ORGANIZATION are classified as current assets, fixed assets, contra-assets, and other assets. Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date. Fixed assets are tangible assets with a useful life of more than one year that are acquired for use in the operation of the organization and are not held for resale. Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable. Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments.</td>
</tr>
</tbody>
</table>
Account Range | Category | Definition
--- | --- | ---
2000–2302 | Liabilities | Liabilities are probable future sacrifices of economic benefits arising from present obligations of the organization to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities of SAMPLE ORGANIZATION are classified as current or long-term. Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable, and deferred revenue. Long-term liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

3100–3150 | Net Assets | Net assets are the difference between total assets and total liabilities. See the next section for SAMPLE ORGANIZATION's policies on classifying net assets.

4000–4115 | Revenues | Operating revenues are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an organization's ongoing major or central operations. Operating revenues of SAMPLE ORGANIZATION include donations and bequests. This includes donations, bequests and state contract revenue. Non-operating revenues are increases in net assets from peripheral or incidental transactions and from other transactions, events, and circumstances affecting the organization except those that result from revenues or contributions. These items are reported separately on the Statement of Activities, below the increase (decrease) in net assets from operating activities.

5000–6900 | Expenses | Operating expenses are outflows or other using up of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute SAMPLE ORGANIZATION's ongoing or central operations. Non-operating expenses are decreases in net assets from peripheral or incidental transactions and from other transactions, events, and circumstances affecting the organization except those that result from revenues or contributions. These items are reported separately on the Statement of Activities, below the increase (decrease) in net assets from operating activities.

CLASSIFICATION OF NET ASSETS. Net assets of SAMPLE ORGANIZATION shall be classified based upon the existence or absence of donor-imposed restrictions as follows in compliance with FASB 116:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be satisfied through the actions of the organization and/or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that the organization permanently maintain certain contributed assets.
Generally, donors of such assets permit the organization to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes.

Net assets accumulated by SAMPLE ORGANIZATION that are not subject to donor-imposed restrictions, but which the Board of Directors has earmarked for specific uses, shall be segregated in the accounting records as "Board-Designated" funds within the unrestricted category of net assets.

Should a reclassification of net assets be required to properly state each class of net assets, this determination is ordinarily made by the CEO during the fiscal year end closing process. If an adjusting journal entry is required, the Staff Accountant shall submit the appropriate journal entry or entries to the CEO for review and approval, before they may be posted to the general ledger.

CHANGES TO THE CHART OF ACCOUNTS. Additions to, deletions from or any other changes to SAMPLE ORGANIZATION’s standard chart of accounts shall be approved by the CEO in consultation with the accountant.

FISCAL YEAR OF ORGANIZATION. SAMPLE ORGANIZATION shall operate on a fiscal year that begins on July 1 and ends on June 30. Any changes to the fiscal year of the organization must be ratified by majority vote of the Board of Directors.

JOURNAL ENTRIES. All general ledger entries that do not originate from a subsidiary ledger shall be supported by journal vouchers, file memos, or other documentation, which shall include a reasonable explanation of each such entry. Such journal entries are to be recorded at least monthly. Examples of such journal entries include:

1. Recording of biweekly payroll;
2. Recording of manual deposits;
3. Recording of cash transfers, bank fees, and bank withdrawals to pay monthly corporate credit card charges;
4. Recording of noncash transactions;
5. Recognition of deferred revenue;
6. Recognition of investment income, realized and unrealized gains and losses from investments;
7. Correcting posting errors.

In addition to the above, other general ledger entries shall be made at least annually:

1. Recording of depreciation on fixed assets;
2. Amortization of discounts on promises to give;
3. Amortization of prepaid expenses;
4. Adjustments to the allowance for bad debts;
5. Recording of non-recurring accruals of income and expenses.

It is the policy of the Finance Office that journal entries not originating from a subsidiary ledger shall be authorized in writing by the CEO by initialing or signing the entries or supporting documentation.
ACCOUNT RECONCILIATIONS. All general ledger accounts shall be reconciled to supporting subledgers or appropriate documentation by the Director of Finance periodically. Reconciliations are reviewed and approved by the CEO.

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

REVENUE

Revenue Recognition Policies. SAMPLE ORGANIZATION receives revenue from several types of transactions. Revenue from each of these types of transactions is recognized in the financial statements of SAMPLE ORGANIZATION in the following manner:

1. Contributions – Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income);
2. Special Events – Recognized as income when received, unless accompanied by restrictions or conditions;
3. Investment Income – Recognized as income when earned.
4. Program Fees – Recognized as income when earned.
5. Tuition – Recognized as income when earned.
6. Grants from Illinois Department of Human Services ≠ Income is recognized quarterly based on the reimbursable grant cycle.

Immaterial categories of revenue may be recorded on the cash basis of accounting (i.e., recorded as revenue when received) as deemed appropriate by the Finance Office.

CONTRIBUTIONS RECEIVED

Definitions. The following definitions shall apply with respect to the policies described in this section:

Contribution – A transaction in which an individual or other entity makes an unconditional voluntary transfer of cash or other assets to SAMPLE ORGANIZATION, or a settlement or cancellation of liabilities, without receiving equal value in exchange.

Condition – A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to SAMPLE ORGANIZATION or releases the promisor from its obligation to transfer its assets.

Restriction – A donor-imposed stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the SAMPLE ORGANIZATION, the environment in which it operates, and the purposes specified in the SAMPLE ORGANIZATION articles of incorporation and bylaws. Restrictions on SAMPLE ORGANIZATION’s use of an asset may be temporary or permanent.

Nonreciprocal Transfer – A transaction in which an entity incurs a liability or transfers assets to SAMPLE ORGANIZATION without directly receiving value in exchange.

Promise to Give – A written or oral agreement to contribute cash or other assets to the SAMPLE ORGANIZATION.
**Exchange Transaction** – A reciprocal transaction in which SAMPLE ORGANIZATION and another entity each receive and sacrifice something of approximately equal value. Tuition is the primary exchange transaction and source of income for Sample Organization.

**Grants** – Restricted and Unrestricted Grants: CEO receives all grants and awards, and copies are kept in funding files and scanned into electronic fundraising file.

**DISTINGUISHING CONTRIBUTIONS FROM EXCHANGE TRANSACTIONS.** SAMPLE ORGANIZATION receives and records SAMPLE ORGANIZATION income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. SAMPLE ORGANIZATION shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. SAMPLE ORGANIZATION’s intent in soliciting the asset, as stated in the accompanying materials;
2. The expressed intent of the entity providing resources to SAMPLE ORGANIZATION (i.e. does the resource provider state its intent is to support SAMPLE ORGANIZATION’s programs or that it anticipates specified benefits in exchange?);
3. Whether payment received by SAMPLE ORGANIZATION is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by SAMPLE ORGANIZATION, or the cost of those assets plus a markup (exchange transaction);
4. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution); and
5. Whether assets are to be delivered by SAMPLE ORGANIZATION to individuals or organizations other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or organizations closely connected to the resource provider.

**ACCOUNTING FOR CONTRIBUTIONS.** SAMPLE ORGANIZATION shall recognize contribution income in the period in which the organization receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors. Contribution income shall be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of such restrictions.

Unconditional promises to give, including pledges, are recognized in the period received, and recorded as receivables and increases in net assets (contribution income) of SAMPLE ORGANIZATION in the period that SAMPLE ORGANIZATION receives evidence that a promise to support the organization has been made. Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management. Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value. Amortization of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises...
to give is the risk-free rate of return available to SAMPLE ORGANIZATION at the time the organization receives a promise from a donor.

Conditional promises to give may or may not result in contribution revenue, depending on the circumstances. If the donor-imposed condition specifies a future and uncertain event whose likelihood of not being met is remote (e.g., a promise conditioned on the organization providing an annual financial statement), then a receivable and increase in net assets will be recorded in the period that evidence of the promise is received. However, if the likelihood of meeting the donor-imposed condition is uncertain (e.g., the donor stipulates that the SAMPLE ORGANIZATION must first raise a matching contribution from other sources), then a receivable and increase in net assets will be recorded only when the condition has been substantially met or waived by the donor.

A transfer of assets to SAMPLE ORGANIZATION with a conditional promise to contribute them in the future shall be recorded by SAMPLE ORGANIZATION as a refundable advance (liability) in the period received. The liability may not be reclassified as contribution revenue until the conditions have been substantially met or explicitly waived by the donor.

Accounting for Bequests. From time to time, SAMPLE ORGANIZATION may be the beneficiary of various estates. Before contribution revenue from wills and estates may be recognized, SAMPLE ORGANIZATION must first obtain verifiable evidence that either (a) the revenue was received, or (b) the organization has received notification that a probate court has declared the will valid. In the case of an estate that includes both living trust(s) and a will (e.g., a pour-over will), contribution revenue cannot be recognized until the will has cleared probate.

SAMPLE ORGANIZATION will record receivable and contribution revenue at the fair value of its interest in the estate or trust in the period in which the will has cleared probate, unless the promise to give is conditioned upon future or uncertain events (see Accounting for Contributions above). Documentation from the executor of the estate or trustee of the trust shall be used to determine the fair value of the estate receivable. Communications from individuals that SAMPLE ORGANIZATION has been included in an individual’s will, or that a will is being probated, are statements of “intentions to give,” rather than unconditional promises to give. Accordingly, these communications do not result in the recording of revenue on the general ledger. Correspondence files for pending bequests are maintained by the Finance Office.

Classification of Income and Net Assets. All income received by SAMPLE ORGANIZATION is classified as "unrestricted," with the exception of contributions or bequests with donor-imposed restrictions. In most cases, the donor-imposed restrictions are temporary in nature, limiting the organization’s use of contributed assets to (a) later periods or after specific dates, or (b) specific purposes, or (c) both.

Contributions without donor-imposed restrictions, and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. However, contributions with donor-imposed restrictions, which are not met in the same period as the gift are reported as increases in temporarily restricted net assets. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

From time to time, the Board of Directors may determine that it is appropriate to set SAMPLE ORGANIZATION funds aside for specific projects. To the extent these set-asides
result from an action by the Board of Directors, rather than a donor-imposed requirement, the resulting set-aside shall be classified as “unrestricted.” However, these funds shall be labeled “Board-Designated” funds within the unrestricted net assets of SAMPLE ORGANIZATION, and shall be reported as a separate component of unrestricted net assets on SAMPLE ORGANIZATION financial statements.

**Contributed Services and Gifts in Kind.** When it receives support in the form of volunteer labor, SAMPLE ORGANIZATION shall record contribution income and assets or expenses if one of the following two criteria is met:

1. The contributed service creates or enhances a nonfinancial asset (such as a building or equipment), or
2. The contributed service possesses all three of the following characteristics:
   a. It is the type of service that would typically need to be purchased by SAMPLE ORGANIZATION if it had not been contributed;
   b. It requires specialized skills (i.e., formal training in a trade or profession); and
   c. It is provided by an individual possessing those specialized skills (e.g., a veterinarian).

Examples of contributed services that would be recorded as income and expense by SAMPLE ORGANIZATION might include free legal or consulting services. Contributed services that meet one of the two preceding criteria shall be recorded at the fair market value of the service rendered.

Contributions of assets other than cash (gifts in kind) are recorded at estimated fair value. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as unrestricted contribution revenue. See supplement for procedures on tracking and recording.

**RECEIPTS AND DISCLOSURES.** SAMPLE ORGANIZATION and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and the underlying Regulations. To comply with those rules, SAMPLE ORGANIZATION shall adhere to the following guidelines with respect to contributions received.

For all contributions, SAMPLE ORGANIZATION shall provide a receipt to the donor if donor information is made available. The Development or Special Events departments shall prepare the receipts. All receipts prepared by SAMPLE ORGANIZATION shall include the following information:

1. The amount of cash received and/or a description (but not an assessment of the value) of any noncash property received;
2. A statement of whether SAMPLE ORGANIZATION provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received from the donor; and
3. If any goods or services were provided to the donor by SAMPLE ORGANIZATION, a description and good faith estimate of the value of those goods or services.

Under tax law, SAMPLE ORGANIZATION is not required to describe or provide a value for “insubstantial” goods or services provided to donors, as described in the IRS guidance to be found at http://www.irs.gov/publications/p526/ar02.html#en_US_2012_publink1000229661.
It is the policy of SAMPLE ORGANIZATION to comply with all current federal and state rules regarding solicitation and collection of charitable contributions, whether specifically addressed in this manual or not, as well as all future revisions to those rules.

CASH RECEIPTS

Overview. Cash (including checks payable to the organization) is the most liquid asset an organization has. Therefore, it is the objective of SAMPLE ORGANIZATION to establish and follow the strongest possible internal controls in this area.

Cash receipts of SAMPLE ORGANIZATION typically include: donations, and exchange transactions.

All receipts are reviewed by two staff members. All funds are deposited to the credit of SAMPLE ORGANIZATION in such banks, trust companies or other depositories as the Board of Directors may select.

Tuition is generally received directly into SHS’ bank account.

BILLING/INVOICING POLICIES

Responsibilities for Billing and Collection. SAMPLE ORGANIZATION’s Finance Office is responsible for the collection of outstanding receivables. (Note: Cash receipts, credit memo, and collection policies will be discussed in subsequent sections).

See the section on “Accounts Receivable and Notes Receivable Management” for policies regarding follow-up on uncollected receivables.

ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE ENTRY. The Finance Office performs posting of debit memos, invoices, and requests for reimbursement to the appropriate accounts receivable and notes receivable general ledger accounts. These transactions are posted on the basis of supporting documentation prepared by the Finance Office. The Finance Office also is responsible for posting amounts collected on accounts receivable and notes receivable to the general ledger.

Any write-offs or adjustments to accounts receivable must be proposed in writing by the Staff Accountant, and approved by the CEO, before posting to the appropriate receivable general ledger account by the Staff Accountant.

ACCOUNTS RECEIVABLE AND PLEDGES RECEIVABLE MANAGEMENT

TYPES OF RECEIVABLES. Accounts Receivable used for amounts due from various agencies, foundations and occasionally special events.

COLLECTIONS AND OTHER ADJUSTMENTS. At least quarterly, a detailed report of accounts receivable is generated and reviewed for outstanding unpaid amounts. The Staff Accountant promptly follows up on overdue unpaid balances by working with the Development department to contact the invoiced parties by telephone or letter in an attempt to collect the amount due.

From time to time, credits against accounts receivable from transactions other than payments will occur. Examples include returned items, bad debts, and adjustments for billing errors. The bookkeeper, is responsible for identifying these credits based on the quarterly analysis. Proposed credits arising from bad debts (e.g., write-offs of uncollectible amounts) must be approved and initialed by the CEO before the bookkeeper may post them to the general ledger.
POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS

PURCHASING POLICIES

Overview. It is the policy of SAMPLE ORGANIZATION to follow a practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

Responsibility for Purchasing. Senior Management shall have the authority to initiate purchases on behalf of SAMPLE ORGANIZATION, generally, and shall have authority over office expenses (e.g., utilities, office supplies, professional services, official travel), within annual limits as imposed by the board-approved budget. The Treasurer shall have the authority to initiate payment for investment management fees rendered. In all instances, the officer who initiates a purchase shall not also be the check signer.

The Finance Office shall be responsible for processing invoices for payment and maintaining the most current Approval and Signing Authority Schedule, which may be modified at any time by the CEO.

Nondiscrimination Policy. All vendors/contractors who are the recipients of organization funds, or who propose to perform any work or furnish any goods under agreements with SAMPLE ORGANIZATION shall agree to these important principles:

1. Vendors/contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the vendors/contractors.

2. Vendors/contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause. Notices, advertisement and solicitations placed in accordance with Federal law, rule or regulation shall be deemed sufficient for meeting the intent of this section.

Authorizations and Purchasing Limits. All check requests and invoices must be initialed or signed by the preparer and approved (noted by initialing) by the appropriate individual, a program director, officer, or senior executive officer.

All contracts between SAMPLE ORGANIZATION and outside parties must be signed by a senior executive officer. This policy shall also apply to renewals of existing contracts. All purchases, expenses, and capital additions should fall within the limits established by the annual operating budget and capital additions budget approved by the Board of Directors. Unbudgeted purchases, expenses, or capital additions require a budget modification in accordance with the policy outlined in the Budgeting section of this manual, prior to authorization for payment.

Vendor Files and Required Documentation. The Finance Office shall maintain records for each vendor from whom SAMPLE ORGANIZATION purchases goods or services. All vendor files shall be maintained by fiscal year in a locked file cabinet located in the Finance Office. Both current fiscal year and prior fiscal year vendor folders shall be kept in this file cabinet, while prior year files are maintained in accordance with the SAMPLE
16 Appendix 5B

ORGANIZATION’s record retention policy in a segregated, locked cabinet (see Record Retention section of this manual).

Upon making the initial purchase from any vendor providing services (regardless of whether a contract is involved), the Finance Office shall mail or fax a blank Form W-9 to that vendor, along with a request for the vendor to complete and sign the W-9 or provide equivalent, substitute information. Completed, signed Forms W-9 or substitute documentation shall be filed in the computer files, maintained for this purpose, to expedite preparation of Forms 1099 at the end of each calendar year.

See the section on “Payroll and Related Policies” for guidance on determining whether a vendor should be treated as an employee.

Ethical Conduct in Purchasing. Ethical conduct in managing the organization’s purchasing activities is an absolute essential. Staff must always be mindful that they represent SAMPLE ORGANIZATION.

Generally, staff shall discourage the offer of, and decline, individual gifts or gratuities of value in any way that might influence the purchase of supplies, equipment, and/or services. However, unsolicited gifts of a nominal value of $50 or less may be accepted, but must be disclosed by email to Human Resources. Gifts to the organization, viewed as normal business incentives to obtain future organization-approved business, are acceptable donations.

CONFLICTS OF INTEREST PROHIBITED. No officer, board member, employee, or agent of SAMPLE ORGANIZATION shall participate in the selection or administration of a vendor if a real or apparent conflict of interest would be involved. Such a conflict would arise if an officer, board member, employee or agent, or any member of his/her immediate family, his/her spouse/partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the vendor selected.

Officers, board members, employees and agents of SAMPLE ORGANIZATION shall neither solicit nor accept gratuities, favors, or anything of monetary value from vendors or parties to subagreements. However, unsolicited gifts of a nominal value of $50 or less may be accepted, but must be disclosed by email to Human Resources.

ACCOUNTS PAYABLE POLICY

Policy Summary. SAMPLE ORGANIZATION will only accept payment requests in the form of a vendor invoice, expense reimbursement, or a check requisition form.

All payment requests must have Proper Approval, Cost Center number, GL Account number, Description, and Date of Approval before payments are processed by Accounts Payable (AP).

Purpose. The purpose of this policy is:

• To establish uniform guidelines with respect to the payment requests to ensure a timely and efficient Accounts Payable (AP) process.
• To identify the roles and responsibilities of a Department Head
• To provide guidance on acceptable payment requests forms:
  ○ Expense Reimbursement
  ○ Vendor Invoice
  ○ Check Requisition form
• To provide guidance on the submission and workflow of all payment requests.
Policy Detail

A. Cost Center
   ○ Each department is assigned a cost center number. This cost center number will allow the organization to measure the true profit, cost, break-even point, and profit margin per department.

B. Department Heads Roles and Responsibilities
   ○ Each Cost Center will have a Department Head responsible for all transactions charged to their assigned cost center.
   ○ This individual has the authority to purchase goods and services on behalf of the department based on their authorized dollar amount.
   ○ This individual will be responsible for reviewing and approving all payment requests charged to their assigned cost center. When signing off on a payment request, the Department Head is ensuring that the vendor is an approved vendor, payee information is correct, payment amount is accurate, GL number provided is appropriate, and expenditure description is clear, before submitting for payment.

C. Standardized Approval Requirement for Expenditures
   ○ All invoices/payment requests must be approved by an authorized signer. It is the Program Director’s responsibility to obtain approval by the authorized signer prior to submitting invoices for payment.
   ○ Exceptions to this are for recurring payments to contract vendors in which monthly invoices are generated, i.e., utilities, insurance, IT maintenance, and so forth. The Finance Office may submit payment request without additional approval.

Expense Reimbursement. SAMPLE ORGANIZATION reimburses staff for certain job related business expenses.

Business reimbursable expenditures will need to be submitted using the Expense Reimbursement form, along with any supporting documents. The form must be prepared in a professional and complete manner with the business purpose and attendees name clearly identified.

Vendor Invoice. An invoice or bill is a commercial document issued by the vendor, indicating the products, quantities, and agreed prices for products or services the vendor has provided to us. Please note that all pages to an invoice must be submitted, not just the page containing the total amount due.

Centralize and Standardize All Employee, Vendor, and Customer Disbursements. All employee expense reimbursements, payments to vendors, consultants, independent contractors, volunteers and customers must adhere to the accounts payable policy, expense and procurement policy. In addition, all operating expense payments must be processed and released by the Finance Office.

Approval Process. Department Heads should be aware of the expenditures they are approving. It is critical that they also take ownership and identify what operating General Ledger account numbers the payment request must be applied to.
Appendix 5B

The bookkeeper will review and monitor to ensure that the CCMs are providing proper information and will follow up with each Manager if there is missing, incomplete, or incorrect information.

In order to process all payments timely, all parties are expected to review, approve, process, and release the payment within three business days. For example:

- Department Heads – will have three business days to review/approve the payment requests (whether it’s an expense reimbursement/invoice or Check Requisition).
- Senior executive officers – will have three business days to review/approve all payments.
- Accounts Payable – will have three business days to process and release the payment.
- Check signers – all check signers must review and sign the payment within three business days.

If all parties adhere to this practice, all payments should be processed and released within 12–15 business days. Please note: It may take longer if there is missing, incomplete, or incorrect information.

EMPLOYEE EXPENSE REPORTS. Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed expense reimbursement form. These expenses must be pre-approved by the CEO. The expense reimbursement form is available in the Finance Office. All receipts must be attached, and a brief description of the business purpose of trip or meeting must be noted on the form. Expense reports will be processed for payment in the next vendor payment cycle.

See the Expense Management Procedures in the finance and accounting procedures manual for additional information on the mechanism of processing appropriate expenses.

Reconciliation of A/P Subsidiary Ledger to General Ledger. At the end of each monthly accounting period, the total amount due to vendors per the accounts payable subsidiary ledger shall be reconciled by the Finance Office to the total per the accounts payable general ledger account (control account). All differences are investigated and adjustments are made as necessary.

POLITICAL INTERVENTION

PROHIBITED EXPENDITURES. Consistent with its tax-exempt status under the Internal Revenue Code, it is the policy of SAMPLE ORGANIZATION that the organization shall not incur any expenditure for political intervention. For purposes of this policy, political intervention shall be defined as any activity associated with the direct or indirect support or opposition of a candidate for elective public office at the federal, state or local level. Examples of prohibited political expenditures include, but are not limited to, the following:

1. Contributions to political action committees;
2. Contributions to the campaigns of individual candidates for public office;
3. Contributions to political parties;
4. Expenditures to produce printed materials (including materials included in periodicals) that support or oppose candidates for public office;
5. Expenditures for the placement of political advertisements in periodicals.
ENDORSEMENTS OF CANDIDATES. It is the policy of SAMPLE ORGANIZATION not to endorse any candidates for public office in any manner, either verbally or in writing. This policy extends to the actions of management and other representatives of SAMPLE ORGANIZATION, when these individuals are acting on behalf of, or are otherwise representing the organization.

PROHIBITED USE OF ORGANIZATION ASSETS AND RESOURCES. It is the policy of SAMPLE ORGANIZATION that no assets or human resources of the organization shall be utilized for political activities, as defined above. This prohibition extends to the use of organization assets or human resources in support of political activities that are engaged in personally by board members, members of management, employees, or any other representatives of SAMPLE ORGANIZATION. Although there is no prohibition against these individuals engaging in political activities personally (on their own time, and without representing that they are acting on behalf of the SAMPLE ORGANIZATION), these individuals must at all times be aware that SAMPLE ORGANIZATION resources cannot at any time be utilized in support of political activities.

CASH DISBURSEMENT (CHECK-WRITING) POLICIES

CHECK PREPARATION. It is the policy of SAMPLE ORGANIZATION to print vendor checks and expense reimbursement checks periodically according to terms and purpose of check. Checks shall be prepared by persons independent of (1) individuals who initiate or approve expenditures, and (2) those who are authorized check signers.

All vendor and expense reimbursement checks shall be produced in accordance with the following guidelines:

1. Expenditures must be supported in conformity with the purchasing, accounts payable, and travel and business entertainment policies described in this manual.
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors.
3. Generally, all vendors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services, unless earlier payment is requested.
4. Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks.
5. All supporting documentation is attached to the corresponding check prior to forwarding the entire package to an authorized check signer.
6. SAMPLE ORGANIZATION shall use laser business checks that include two parts (original plus a file copy). Checks shall be utilized in numerical order.
7. Blank check stock (e.g., unused checks) shall be stored in a locked file cabinet in the Finance Office when not in use.
8. Checks shall never be made payable to “bearer” or “cash.” Petty cash checks shall be made payable to “Petty Cash – [name of Petty Cashier].”
9. Checks shall never be signed prior to being prepared.
10. Upon the preparation of a check, vendor invoices and other supporting documentation shall immediately be canceled (marked paid) in order to prevent
20 Appendix 5B

subsequent reuse. The Finance Office shall attach the cancelled original invoice, check request, or credit card statement to the file copy of the check.

11. Checks shall have the dollar amount imprinted on the face of the check.

12. After a check has been signed and mailed, the file copy of check (with supporting documentation attached) is filed by the Staff Accountant in a locked file cabinet located in the Finance Office.

CHECK SIGNING. Checks up to $2,999 require a single signature. Check for $3,000 and above require two signatures. No checks shall be signed prior to the check being completed in its entirety (no signing of blank checks).

It is the policy of SAMPLE ORGANIZATION that each check shall be signed by an individual other than the one who approved the transaction for payment. Generally, checks shall be prepared by the Staff Accountant and approved for payment by the Department Head, before being signed by an authorized check signer. The Sage software protocol requires that checks are entered in the software as unposted transactions. Unposted transactions are reviewed and released by the CEO before checks are printed.

Check signers should examine all original supporting documentation to ensure that each item has been properly checked prior to signing a check. Checks should not be signed if supporting documentation appears to be missing or there are any questions about a disbursement.

MAILING OF CHECKS. After signature, checks are mailed by the Finance Office.

If by special request, a check is to be held at SAMPLE ORGANIZATION rather than mailed, the held check shall be kept in a locked file cabinet in the Finance Office.

Voided Checks and Stop Payments. Checks may be voided due to processing errors by making proper notations in the check register and defacing the check by clearly marking it as “VOID”. All voided checks shall be retained to aid in preparation of bank reconciliations.

Stop-payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by telephone instruction and written authorization to the bank by either the Director of Finance or Staff Accountant. A journal entry is made to record the stop payment and any related bank fees.

Record-Keeping Associated with Independent Contractors. SAMPLE ORGANIZATION shall obtain a completed Form W-9 or equivalent substitute documentation from all vendors to whom payments are made. A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year’s end. Payments to such vendors shall be accumulated over the course of a calendar year.

OUTGOING ACH TRANSFERS. Certain routine cash disbursements transactions are handled by ACH Interbank Transfer. Types of cash disbursement transactions settled in this manner may include various HR/Payroll invoices.

Payroll and Related Policies

Classification of Workers as Independent Contractors or Employees. It is the policy of SAMPLE ORGANIZATION to consider all relevant facts and circumstances regarding the relationship between SAMPLE ORGANIZATION and the individual in making
determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between SAMPLE ORGANIZATION and the individual. Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control;
2. Financial control; and
3. The type of relationship of the parties.

Facts associated with each of these categories that will be considered by SAMPLE ORGANIZATION in making employee/contractor determinations shall include:

1. Behavioral control:
   a. Instructions given by SAMPLE ORGANIZATION to the worker that indicate control over the worker (suggesting an employee relationship), such as:
      1. When and where to work;
      2. What tools or equipment to use;
      3. What workers to hire or to assist with the work;
      4. Where to purchase supplies and services;
      5. What work must be performed by a specified individual; and
      6. What order or sequence to follow.
   b. Training provided by SAMPLE ORGANIZATION to the worker (i.e. employees typically are trained by their employer, whereas contractors typically provide their own training)

2. Financial control:
   a. The extent to which the worker has unreimbursed business expenses (i.e. employees are more likely to be fully reimbursed for their expenses than is a contractor);
   b. The extent of the worker’s investment in the facilities/assets used in performing services for SAMPLE ORGANIZATION (greater investment associated with contractors);
   c. The extent to which the worker makes services available to the relevant market;
   d. How SAMPLE ORGANIZATION pays the worker (i.e. guaranteed regular wage for employees vs. flat fee paid to some contractors); and
      The extent to which the worker can realize a profit or loss.

3. Type of Relationship:
   a. Written contracts describing the relationship that SAMPLE ORGANIZATION and the individual intend to create.
   b. Whether SAMPLE ORGANIZATION provides the worker with employee-type benefits, such as insurance, paid leave, etc.;
   c. The permanency of the relationship; and
   d. The extent to which services performed by the worker are a key aspect of the regular business of SAMPLE ORGANIZATION.
If an individual qualifies for independent contractor status, the individual will be sent a Form 1099 if total compensation paid to that individual for any calendar year, on the cash basis, is $600 or more, based on current IRS rules. The amount reported on a Form 1099 is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from “compensation” are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

If an individual qualifies as an employee, a personnel file will be created for that individual and all documentation required by SAMPLE ORGANIZATION personnel policies shall be obtained. The policies described in the remainder of this section shall apply to all workers classified as employees.

**Payroll Administration.** SAMPLE ORGANIZATION operates on a semi-monthly payroll. For all SAMPLE ORGANIZATION employees, a personnel file is established and maintained with current documentation.

The following forms, documents and information shall be obtained and included in the personnel files of all new employees:

1. Employment application (and resume, if applicable);
2. Applicant references (work and personal);
3. Form W-4 Employee Federal Withholding Certificate;
4. State Withholding Certificate;
5. Form I-9 Employment Eligibility Verification;
6. Copy of driver’s license;
7. Copy of Social Security card issued by the Social Security Administration;
8.Starting date and scheduled hours;
9. Job title and starting salary;
10. Authorization for direct deposit of paycheck, along with a voided check or deposit slip.

For employees without a current, valid driver’s license, acceptable alternative documents shall include:

1. U.S. Passport;
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561);
3. Voter’s registration card;
4. U.S. Military card;
5. ID card issued by a federal, state or local government, provided it contains a photo;
6. School record or report card (for persons under age 18 only).

For employees without a Social Security card, acceptable alternative documents shall include:

1. U.S. Passport;
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561);
3. Original or certified copy of a birth certificate issued by a state, county or municipal authority;
4. Certificate of Birth Abroad issued by the Department of State (Form FS-545 or Form DS-1350);
5. U.S. Citizen ID Card (INS Form I-197);
6. Native American tribal document;
7. ID Card for use of Resident Citizen in the United States (INS Form I-179).

Each employee payroll file shall also indicate whether the employee is exempt or nonexempt from the provisions of the Fair Labor Standards Act.

**CHANGES IN PAYROLL DATA.** It is the policy of SAMPLE ORGANIZATION that all of the following changes in payroll data are to be authorized in writing:

1. New hires;
2. Terminations;
3. Changes in salaries and pay rates;
4. Voluntary payroll deductions;
5. Changes in income tax withholding status;
6. Court-ordered payroll deductions.

Annual changes in salaries and pay rates must first be approved by the CEO. New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the approving senior executive officer. Voluntary payroll deductions and changes in income tax withholding status shall be authorized in writing by the individual employee or initiated by the employee through ADP.

Documentation of all changes in payroll data shall be maintained in each employee’s personnel file. Employee personnel files shall be maintained in a locked file cabinet in the Human Resources office.

**Payroll Taxes.** The bookkeeper is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid, utilizing an external payroll provider.

**Payroll**

1. Payroll is paid semi-monthly for all employees. Employees consist of union, nonunion, salary, and hourly.
2. The CEO is responsible for approving all staff positions. An appointment letter is sent from the CEO and includes the position/salary offered.
3. Increases in pay rate are documented in some type of written form. There is no specific form to be completed. For union employees a letter is sent to the union noting the pay change. If there are any objections, the union will contact SAMPLE ORGANIZATION; however, that typically does not happen.
4. A completed form W4 is filed in personnel filed for each staff. The Finance Manager oversees the completion of payroll, tax withholding forms and insurance application for all new staff.
5. Each hourly wage staff is responsible for completing his/her own time sheet on a daily basis. Per further discussion with Director of Finance, it was noted that there are very few hourly employees as they are typically contracted workers for a short period of time. The CEO reviews all the time sheets for accuracy at the end of each pay period.
6. All employees are required to submit requests for both vacation and sick time. These forms are signed by supervisors and CEO and given to the bookkeeper. The bookkeeper is responsible for the maintenance and updating of records pertaining to sick leave, overtime, and compensatory time on a continuing basis through the ADP system.

7. The bookkeeper prepares payroll through Intuit Payroll Service. Once all of the information has been entered, the bookkeeper submits the batch and generates a preview of the payroll register.

8. Currently almost all payroll vouchers are direct deposited to employee checking accounts and if a check is written, Intuit utilizes an authorized signature stamp. The payroll registers and check vouchers are mailed directly to the Director of Finance. The register is scanned for reasonableness by the Director of Finance. The check vouchers and occasionally live checks are distributed by the Finance Manager.

9. All payroll related transactions (such as: employer FICA, Unemployment tax, and payroll withholding / deductions) processed by Intuit are entered into SAMPLE ORGANIZATION accounting system on a monthly basis. A spreadsheet is prepared by the bookkeeper in which each individual’s pay, withholdings, etc. are entered. The spreadsheet is setup to allocate the payroll expenses to the corresponding programs. The journal entry is entered by the bookkeeper and periodically reviewed by the outsourced accountant.

10. All deductions/contributions such as 401K and transit card payments are handled as EFT payments on a timely basis monthly.

11. Each month total payroll expense is reconciled to payroll expense per the ADP payroll report. Also, each month budget versus actual reports are reviewed internally, and bimonthly the Board of Directors reviews the budget versus actual report.

POLICIES PERTAINING TO SPECIFIC ASSET AND LIABILITY ACCOUNTS

CASH AND CASH MANAGEMENT

Banking Policy. The CEO shall be responsible for controlling the opening, closing and maintenance of all SAMPLE ORGANIZATION financial institution accounts. The CEO is the primary representative in dealing with financial institutions.

Opening Financial Institution Accounts. Generally, SAMPLE ORGANIZATION shall maintain one or more checking accounts for operations. If an additional financial institution account is needed, CEO, in consultation with the Treasurer shall proceed to open such accounts. Bank accounts shall be held only at U.S. banks that are members of the Federal Deposit Insurance Corporation (FDIC). All corporate resolutions and other documents required to be signed by an officer of the civil corporation in order to open a financial institution account shall be signed (at a minimum) by the CEO in his/her capacity as Chairman of the corporation, or by another officer designated by him/her.

Maintaining Financial Institution Accounts. To add or delete account signers, new signature cards must be signed and submitted to the respective financial institution along with a certified corporate banking resolution signed by the CEO.
All financial institution accounts shall be reviewed at least annually (or upon a significant change in operations) by the Finance Office to determine that a business reason still exists for the continuation of the account. If it is determined that no reason exists for keeping an account open, then the account should be closed.

The CEO will maintain financial institution account files, including copies of official documents relating to the opening and closing of accounts, current signature cards, and significant changes to the manner in which the accounts operate.

CASH ACCOUNTS

*General Checking Accounts (operating accounts).* The primary operating accounts are used for routine business check disbursements and payroll. Automatic withdrawals from an operating account may be authorized for certain master corporate credit card accounts. Generally, all cash and checks received at SAMPLE ORGANIZATION are deposited to these accounts. From time to time, deposits of larger checks may be made to the secondary cash account to address liquidity needs.

Cash transfers are done on an as-needed basis to cover disbursements.

*Bank Reconciliations.* Bank account statements are received each month and forwarded unopened to the bookkeeper, who shall open the statement and review its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, and so on. Unusual or unexplained items shall be investigated immediately. The reconciliation shall be performed by the accountant.

After this review is complete, all bank activity not yet recorded on the general ledger (e.g., interest earned, bank fees charged, etc.) will be recorded, and a list of outstanding checks and deposits in transit will be prepared. Once this step is completed, the Director of Finance shall gather the bank statements, list of outstanding checks and deposits in transit, and any supporting documentation, and prepare a reconciliation between the bank balance and general ledger balance. It is the policy of SAMPLE ORGANIZATION that all bank reconciliations shall be prepared by a Finance Office employee who is not an authorized check signer. Further, it is the goal of SAMPLE ORGANIZATION to complete the bank reconciliation process as soon as possible after receipt of each bank statement.

*Cash Flow Management.* The CEO monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Where cash transfers are needed, the CEO initiates such transfers.

*Overdrafts.* As SAMPLE ORGANIZATION’s primary representative in dealing with financial institutions, the CEO shall be notified immediately by telephone by the bank if an overdraft should occur. All overdrafts must be settled promptly, usually by ACH interbank transfer from either another cash account or an investment account. These transfers are initiated in writing (date and signature included) by either the SAMPLE ORGANIZATION Treasurer or the CEO. Original documentation of ACH transfers are provided to the Staff Accountant for posting to the general ledger.

*Stale Checks.* It is the policy of SAMPLE ORGANIZATION to review at least quarterly the list of outstanding checks for any that are more than six months old. In these instances, the Staff Accountant shall attempt to contact the payee to resolve the issue.

All stale checks that are written off shall be credited to the same expense or asset account that was debited when the check was written, or the expenditure incurred.
Appendix 5B

Petty Cash. It is the policy of SAMPLE ORGANIZATION to provide for imprest funds only for valid transactions and to periodically replenish these funds up to its authorized balance of $500. The petty cash fund is kept in a lockbox stored in a locked file cabinet in the office of the site director or another senior executive.

All disbursements from the petty cash fund must be accompanied by a completed and initialed petty cash voucher. Receipts are required for all disbursements from petty cash. Travel advances provided to employees and volunteers must be accounted for on a timely completed Expense Report. (See the Travel Advances section of this manual.)

The site director or another senior executive shall serve as petty cash custodian, and shall prepare a reconciliation of the petty cash account on a periodic basis. Petty cash reconciliations are subject to review by the CEO, who may also perform periodic surprise cash counts and reconciliations. Generally, petty cash transactions are posted by the Staff Accountant to the general ledger when Petty Cash checks are prepared to replenish the petty cash fund. Senior executive officers and the CEO are authorized to deposit Petty Cash checks at the local bank and to withdraw cash to replenish the petty cash fund (lockbox).

Wire Transfers and ACH Transfers. The Account Signers shall be the only individuals authorized to transact wire transfers and ACH transfers from SAMPLE ORGANIZATION bank accounts.

All bank transfers shall be initiated in writing, and communicated (typically by fax) to the secondary cash account or other investment account involved. The CEO shall document confirmation of each transfer request by initialing and dating the request, indicating general ledger account code. These confirmations are given to the Staff Accountant for recording in the general ledger and maintained with the appropriate month’s bank statement in the files as supporting documentation that the transfer was properly authorized. For examples of routine ACH transfers initiated by SAMPLE ORGANIZATION, please refer to the Cash Receipts and Cash Disbursement sections of this manual.

PREPAID EXPENSES

ACCOUNTING TREATMENT. It is the policy of SAMPLE ORGANIZATION to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses and to amortize these items over the corresponding time period. For purposes of this policy, payments of less than $500 may be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date shall be classified as noncurrent assets.

PROCEDURES. As part of the account coding process performed during the processing of accounts payable, all incoming vendor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

The Staff Accountant shall maintain a schedule of all prepaid expenses. This schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.
CAPITAL ASSET AND CAPITALIZATION POLICY

DEFINITION  SAMPLE ORGANIZATION holds certain assets which may include land, buildings, building improvements, vehicles, machinery, equipment, furniture, appliances, infrastructure, computers and software and other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single annual reporting period. These assets must be recorded in the books at historical cost when purchased by SAMPLE ORGANIZATION or at fair market value at the time of donation for assets that are otherwise acquired.

POLICY

- Capital assets are to be capitalized only if they have estimated useful lives of at least two years following the date of acquisition;
- Capital asset value thresholds for capitalization are to be applied to either the individual capital purchase or total project cost;
- Capital assets to be capitalized must have an initial value of $1,000 or more. This will be known as the “capitalization threshold” for reporting purposes;
- Capital assets having values of less than $1,000 are classified as expendable equipment and controlled at the departmental budget level. These durable assets will not be capitalized and will not be reported as capital assets on the books;
- An inventory of capitalized assets is kept and reported in the interim and annual reports to the Board and the public;
- REPAIR and MAINTENANCE COSTS are expenditures that keep the property in ordinary efficient operating condition. The cost of the repair does not add to the value or prolong the life of the asset. All repair and maintenance costs to capital assets are to be treated as an annual operating expense and charged to the appropriate department or fund;
- IMPROVEMENTS are expenditures for additions or modifications, which appreciably prolong the life of the asset, materially increase its value or adapt it to a different use. Improvement costs of $1,000 or more to individual capital assets are to be capitalized;
- RENOVATIONS are expenditures for alterations to the internal facilities, which adapt that facility for improved or alternative usage. Renovation costs of $1,000 or more for capital projects are to be capitalized;
- Depreciation shall be computed using the straight-line method over the estimated useful life of the capital asset. Recognition of depreciation shall start the first of the month after the asset or project is put into service;

For financial statement and government reporting purposes, Capital Assets Classes are:

- Land and Land Improvements;
- Buildings (inclusive of original acquisition or construction costs, Building Improvements, Building Renovations and Fixtures to the Buildings such as HVAC, boilers, and built-in cabinetry);
Furniture and Equipment including furnishings, desks, filing cabinets, chairs, tables, network and workstation computer equipment, equipment used in operations, telephone systems, wiring, and so forth;

• Automotive Equipment including passenger vehicles;

• Construction in Progress

TABLE OF ASSETS AND USEFUL LIVES  The following table identifying classes of capital assets, their expected useful lives in years, and expected salvage values is to be used for depreciation and scheduling of asset replacement purposes. All assets purchased prior to the implementation of this policy shall continue to depreciate according to past practices:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Depreciable Life</th>
<th>Salvage Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>n/a</td>
<td>100%</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>25 years</td>
<td>10%</td>
</tr>
<tr>
<td>Buildings</td>
<td>50 years</td>
<td>25%</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>30 years</td>
<td>25%</td>
</tr>
<tr>
<td>Interior Renovations</td>
<td>15 years</td>
<td>20%</td>
</tr>
<tr>
<td>Building Fixtures</td>
<td>15 years</td>
<td>10%</td>
</tr>
<tr>
<td>Furniture Inventory</td>
<td>10 years</td>
<td>10%</td>
</tr>
<tr>
<td>Operating Equipment Inventory</td>
<td>10 years</td>
<td>10%</td>
</tr>
<tr>
<td>Workstation Equipment/Software</td>
<td>5 years</td>
<td>5%</td>
</tr>
<tr>
<td>Network Equipment/Software</td>
<td>10 years</td>
<td>10%</td>
</tr>
<tr>
<td>Electronic Equipment</td>
<td>10 years</td>
<td>5%</td>
</tr>
</tbody>
</table>

INVESTMENTS

This general policy establishes an investment committee, authorizes retention of an investment consultant, and then addresses all of the standard investment policy issues.

INVESTMENT POLICIES OF SAMPLE ORGANIZATION

Preamble.  It is the policy of the board to treat all assets of SAMPLE ORGANIZATION, including funds that are legally unrestricted, as if held by SAMPLE ORGANIZATION in a fiduciary capacity for the sake of accomplishing its mission and purposes. The following investment objectives and directions are to be judged and understood in light of that overall sense of stewardship. In that regard, the basic investment standards shall be those of a prudent investor as articulated in applicable state laws.

Investment Assets.  For purposes of these policies, investment assets are those assets of SAMPLE ORGANIZATION that are available for investment in the public securities markets as stocks, bonds, cash, or cash equivalents, either directly or through intermediate structures. Illiquid assets are described in SAMPLE ORGANIZATION’s gift acceptance policies, and are governed by those rules and not by these investment policies.

Supervision and Delegation.  The board of SAMPLE ORGANIZATION has adopted these policies and has formed an investment committee, described below, to whom it has delegated authority to supervise SAMPLE ORGANIZATION investments. The board reserves to itself the exclusive right to amend or revise these policies.
Investment Committee. The investment committee is comprised of the chief financial officer, [X # of] board members, and [X # of] non–board member(s), who serve at the pleasure of the board. It shall be the responsibility of the committee to

- Supervise the overall implementation of SAMPLE ORGANIZATION’s investment policies by SAMPLE ORGANIZATION’s executive staff and outside advisors
- Monitor and evaluate the investment performance of SAMPLE ORGANIZATION’s funds
- Report regularly on SAMPLE ORGANIZATION investment matters to the board
- Grant exceptions as permitted in these policies and recommend changes in approved policy, guidelines, and objectives as needed
- Execute such other duties as may be delegated by the board

Whenever these policies assign specific tasks to the committee, the policies assume that the actual work will (or may) be performed by SAMPLE ORGANIZATION’s chief financial officer or other designated staff members, subject only to the committee’s overall supervision.

Investment Consultant, Advisors, and Agents. The committee is specifically authorized to retain one or more investment advisors (advisors) as well as any administrators, custodians, or other investment service providers required for the proper management of SAMPLE ORGANIZATION’s funds. The committee may utilize an advisor as an investment consultant (consultant) to advise and assist the committee in the discharge of its duties and responsibilities. In that regard, a consultant may help the committee to

- Develop and maintain investment policy, asset allocation strategies, risk-based fund objectives, and appropriate investment management structures
- Select, monitor, and evaluate investment advisors and/or investment entities
- Provide and/or review quarterly performance measurement reports and assist the committee in interpreting the results
- Review portfolios and recommend actions, as needed, to maintain proper asset allocations and investment strategies for the objectives of each fund
- Execute such other duties as may be mutually agreed

In discharging this authority, the committee can act in the place and stead of the board and may receive reports from, pay compensation to, enter into agreements with, and delegate discretionary investment authority to such advisors. When delegating discretionary investment authority to one or more advisors, the committee will establish and follow appropriate procedures for selecting such advisors and for conveying to each the scope of their authority, the organization’s expectations, and the requirement of full compliance with these policies.

Objectives. SAMPLE ORGANIZATION’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets (a “fund”), which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. SAMPLE ORGANIZATION currently maintains [list funds here, e.g., operating reserves, endowments, charitable trust funds, annuity reserves] and may add other funds in the future. These policies apply to all SAMPLE ORGANIZATION funds, although the specific objectives, risk parameters, and asset allocation will vary, as appropriate, from fund to fund.
Asset Allocations. Actual asset allocations for each fund will be established and maintained by SAMPLE ORGANIZATION on the advice of its consultant and/or advisors, within the ranges provided in the following table:

When appropriate, specific objectives for each fund, including specific asset allocation parameters and performance standards, may be reflected in an appendix attached to these policies. Such specific objectives shall nonetheless be within the foregoing ranges, which can only be modified by the committee with the approval of the board.

Rebalancing Procedures. The committee will monitor the asset allocation of each fund based on reports provided by SAMPLE ORGANIZATION’s consultant and/or investment advisors. The committee may establish any reasonable rebalancing procedure based on either periodic reviews or departures from a range and may use its discretion to determine the timing of rebalancing actions. To achieve rebalancing, SAMPLE ORGANIZATION may either move money from one asset class to another or may direct future contributions and expenditures from particular classes as is most convenient.

Investment Guidelines. To accomplish its investment objectives, SAMPLE ORGANIZATION is authorized to utilize any legal investment structure including separately managed portfolios, mutual funds, exchange traded funds, limited partnerships, and other commingled investment entities. This authority is subject to the requirements and restrictions contained in these policies.

When utilizing mutual funds or other commingled entities, the committee shall see that SAMPLE ORGANIZATION’s staff, consultant, and/or investment advisors have selected the investment entity appropriately based on the strategies and provisions contained in the entity’s prospectus. In that event, the terms and conditions of the prospectus are deemed to control the entity’s internal asset allocation, asset quality, diversification, and other requirements.

For separately managed portfolios, the following additional requirements shall apply:

Asset Quality. Common stocks – The advisor may invest in any unrestricted, publicly traded common stock that is listed on a major exchange or a national, over-the-counter market, and that is appropriate for the portfolio objectives, asset class, and/or investment style of the fund that is to hold such shares.

Convertible preferred stock and convertible bonds – The advisor may use convertible preferred stocks and bonds as equity investments. The quality rating of convertible preferred stock and convertible bonds must be BBB or better, as rated by Standard & Poor’s; or BAA or better, as rated by Moody’s. The common stock into which both may be converted must satisfy the standard of Section 1, earlier.

Fixed-income securities – The quality rating of bonds and notes must be A or better, as rated by Standard & Poor’s or Moody’s. The portfolio may consist of only traditional principal and interest obligations with maturities of __ (e.g., seven) years or less. The advisor may not utilize derivatives without the prior permission of the committee.

Short-term reserves – The quality rating of commercial paper must be A+1, as rated by Standard & Poor’s; P+1, as rated by Moody’s; or better. The assets of any money market mutual funds must comply with the quality provisions for fixed-income securities or short-term reserves.

Other securities – The advisor may invest in real estate investment securities (REITs), international securities traded in the United States directly or as depositary shares, international securities traded on recognized foreign exchanges, and any other publicly traded investments that the committee determines to be appropriate.
Asset Diversification. The advisor will maintain reasonable diversification at all times. The equity securities of any one company should not exceed __ percent of the portfolio at the time of purchase and the combined debt and equity securities should not exceed __ percent of the portfolio at any time. The advisor shall also maintain reasonable sector allocations. In that regard, the maximum allocation to any one economic sector shall be __ percent of the sector’s weighting, as defined in the published index used for measuring the portfolio’s performance (e.g., S&P 500, Russell 1000, etc.). These restrictions do not apply to US government securities.

Proxy Voting. Subject to any specific instructions received from SAMPLE ORGANIZATION or contained in SAMPLE ORGANIZATION’s mission guidelines (see Mission-Based Investment Criteria below), each advisor shall vote proxies according to their firm’s established procedures and shall provide a copy of such procedures to the committee upon request.

Custody and Securities Brokerage. The committee will establish such custodial and brokerage relationships as are necessary for the efficient management of SAMPLE ORGANIZATION’s funds. Whenever the committee has not designated a brokerage relationship, then SAMPLE ORGANIZATION investment advisors may execute transactions wherever they can obtain best price and execution.

Cash Flow Requirements. SAMPLE ORGANIZATION will be responsible for advising the consultant and each advisor in a timely manner of SAMPLE ORGANIZATION’s cash distribution requirements from any managed portfolio or fund. Each advisor is responsible for providing adequate liquidity to meet such distribution requirements.

Investment Restrictions. SAMPLE ORGANIZATION’s investment assets are to be managed with regard to the following restrictions for tax, risk, or mission purposes:

Tax-Based Restrictions. SAMPLE ORGANIZATION is a charitable organization under § 501(c)(3) of the Internal Revenue Code. Consequently, its income is generally exempt from federal and state income tax with the exception of income that constitutes unrelated business income (UBI). Since UBI can be generated by leveraged investments (resulting in “debt-financed income”), SAMPLE ORGANIZATION will not utilize margin, short selling, or other leveraged investment strategies unless the investment committee grants a specific exception as described later.

Risk-Based Restrictions. SAMPLE ORGANIZATION will not engage in commodities transactions or option strategies (puts, calls, straddles) nor will it invest in any non–publicly traded securities including but not limited to managed futures funds, hedge funds, private equity funds, or other alternative investments unless approved by the committee as provided below.

Mission-Based Investment Criteria. SAMPLE ORGANIZATION desires to invest in companies whose business conduct is consistent with SAMPLE ORGANIZATION’s goals and beliefs. Therefore, SAMPLE ORGANIZATION’s consultant and/or investment advisors will use their best efforts to avoid holding securities of any company known to participate in businesses the board deems to be socially or morally inconsistent with SAMPLE ORGANIZATION objectives. The committee will provide advisors with a statement of SAMPLE ORGANIZATION’s mission guidelines and restrictions.
Exceptions to the Investment Restrictions. The board recognizes the evolving nature of the investment world and that, under some circumstances, SAMPLE ORGANIZATION may wish to utilize newer or more complex investment strategies. Therefore, the investment committee is authorized to grant exceptions to the foregoing restrictions. For tax-based restrictions, the committee is to determine if a particular strategy or investment will generate UBTI, for which it may rely on advice of counsel. When granting exceptions, the committee must determine that the potential rewards outweigh the incremental risks. All such exceptions shall be made in writing and shall be communicated to the board as part of the next regular investment committee report.

Reporting Requirements

1. Monthly – The committee will obtain written monthly custodial statements. Such statements should contain all pertinent transaction details for each account that holds all or a portion of any SAMPLE ORGANIZATION investment funds. Each monthly statement should include the name and quantity of each security purchased or sold, with the price and transaction date a description of each security held as of month-end, including its percentage of the total portfolio, purchase date, quantity, average cost basis, current market value, unrealized gain or loss, and indicated annual income (yield) at market.

   In addition, if not included in the custodial reports, the consultant and/or the investment advisor(s) should provide a report for each fund or portfolio showing the month-end allocation of assets between equities, fixed-income securities, and cash. The monthly review of custodial statements may be delegated to SAMPLE ORGANIZATION accounting staff.

2. Quarterly – The committee should obtain from its investment consultant and/or investment advisors, a detailed review of SAMPLE ORGANIZATION’s investment performance for the preceding quarter and for longer trailing periods as appropriate. Such reports should be provided as to each fund and as to SAMPLE ORGANIZATION investment assets in the aggregate. As to each fund, the committee should establish with its investment consultant and/or investment advisors the specific criteria for monitoring each fund’s performance including the index or blend of indices that are appropriate for the objectives of each fund and for the investment style or asset class of each portfolio within a fund. The committee shall meet with the consultant to conduct such reviews to the extent it deems necessary.

3. Periodically – The committee should meet with its investment consultant at least annually to review all aspects of SAMPLE ORGANIZATION’s investment assets. Such a review should include (1) strategic asset allocation, (2) manager and investment entity performance, (3) anticipated additions to or withdrawals from funds, (4) future investment strategies, and (5) any other matters of interest to the committee.

LEASES

Authorization of Leases. All leases having a term of longer than one year must be approved by the CEO and board treasurer. If a lease involves a financing component, or is a non-budgeted item of $10,000 or more, then the lease must be approved by the CEO and Board Chair.

Once a lease has been approved, the senior executive officer shall name an authorized officer of the corporation to execute the appropriate documents. Any modifications to an
executed lease must be submitted to and approved by the senior executive officer. Upon execution of the lease, a copy is provided to the CEO, who in turn prepares an internal memo stating the appropriate journal entry or entries to record the liability and any related expenses. Once reviewed and approved by the CEO, the memo is given to the Staff Accountant for recording in the general ledger.

Other routine operating leases having a term of one year or less (e.g., postage meter or other office equipment) are authorized and executed by the CEO.

Classification of Leases. It is the policy of SAMPLE ORGANIZATION to classify all leases in which the organization is a lessee as either capital or operating leases. SAMPLE ORGANIZATION shall utilize the criteria described in Statement of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

1. The lease transfers ownership to SAMPLE ORGANIZATION at the end of the lease term;
2. The lease contains a bargain purchase option;
3. The lease term is equal to 75 percent or more of the estimated economic life of the leased property; or
4. The present value of the minimum lease payments is 90 percent or more of the fair value of the leased property (using, as the interest rate, the lesser of the SAMPLE ORGANIZATION’s incremental borrowing rate or, if known, the lessor’s implicit rate).

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases.

Accounting for Leases. All leases that are classified as operating leases and immaterial capital leases shall be accounted for as expenses in the period in which the obligation to make a lease payment is incurred. All leases that are classified as capital leases shall be treated as fixed asset additions of SAMPLE ORGANIZATION. As such, upon the inception of a capital lease, SAMPLE ORGANIZATION shall record a fixed asset and a liability under the lease, based on the net present value of the minimum lease payments (or the fair value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The fixed asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation.

ACCRUED LIABILITIES AND DEFERRED REVENUE

IDENTIFICATION OF ACCRUED LIABILITIES. The bookkeeper shall establish a list of commonly incurred expenses that may have to be accrued at the end of the fiscal year. Some of the expenses that shall be accrued by SAMPLE ORGANIZATION at the end of the fiscal year are:

- Interest on notes payable, and reserve fund balances
- Amortization of discount on pledges payable
Appendix 5B

- Credit memos for the month of June
- Invoices or credit card charges for goods or services rendered on or before fiscal year end

Accrual may be required at fiscal year-end for salaries and wages or payroll taxes, depending on payroll cycle. Further, in accordance with the Employee Handbook, employees may carry over up to five unused vacation days therefore an accrual is made at the end of the fiscal year.

RECOGNITION OF DEFERRED REVENUE. SAMPLE ORGANIZATION shall record a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described elsewhere in this manual. Adjustments to deferred revenue accounts shall be made monthly, typically through the preparation of debit memos (see the Billing/Invoicing Policies section of this manual).

DEBT. Sample Organization may choose from time to time to borrow funds for operations or to finance a capital asset. The debt policy is designed to provide a framework on who can borrow, for what purpose and for what timeframe.

The Chief Financial Officer is authorized to request a line of credit with X Bank in order to manage for periodic fluctuations in cash flow. The amount of the line of credit is established each year as an element of the annual cash budget and is based on cash flow forecasts and approved by the Treasurer of the Board.

Other debt may only be incurred as a part of capital expansion initiatives and approved in advance by the Treasurer and the full board.

COMMITMENTS AND CONTINGENCIES

SAMPLE ORGANIZATION may be subject to various claims, lawsuits, and administrative proceedings that arise in the normal course of business with respect to these areas. SAMPLE ORGANIZATION shall accrue for the cost of these matters when the incurrence of such costs is probable and can reasonably be estimated.

Estimation of a Contingent Liability. An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

a. Information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur, confirming the fact of the loss.

b. The amount of the loss can be reasonably estimated.

Disclosure is required for loss contingencies not meeting the above conditions if there is a reasonable possibility that a loss may have been incurred as of fiscal year end and such amount is deemed material.

When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.
Sample Organization 35

a. **Probable.** The future event or events are likely to occur.

b. **Reasonably possible.** The chance of the future event or events occurring is more than remote, but less than likely.

c. **Remote.** The chance of the future event or events occurring is slight.

If an amount within the range appears to be a better estimate than any other amount within the range, that amount shall be accrued. If no amount within the range is a better estimate than any other amount, the minimum amount in the range shall be accrued.

The following factors, among others, shall be considered in determining whether accrual, disclosure, or both, are required with respect to pending or threatened litigation and actual or possible claims and assessments:

a. The period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred.

b. The degree or probability of an unfavorable outcome.

c. The ability to make a reasonable estimate of the amount of loss.

As a condition for accrual of a loss contingency, information available prior to the issuance of financial statements must indicate that it is probable that a liability has been incurred at the date of the financial statements. Accordingly, accrual would clearly be inappropriate for litigation, claims, or assessments whose underlying cause is an event or condition occurring after the date of financial statements but before those financial statements are issued; for example, a suit for damages alleged to have been suffered as a result of an accident that occurred after the date of the financial statements. Disclosure in the footnotes to the annual financial statements may still be required.

Examples of loss contingencies include but are not limited to:

- Risk of loss or damage of SAMPLE ORGANIZATION property by fire or other hazard
- Pending or threatened litigation
- Environmental remediation
- Actual or possible claims or assessments, e.g., workers’ compensation

**Procedures for Evaluation and Disclosure.** Possible loss contingencies are identified through legal correspondence received by SAMPLE ORGANIZATION, and through conversations with outside legal counsel and insurance representatives regarding accident claims or other actual or potential claims against SAMPLE ORGANIZATION. These are initially evaluated by the CEO. If the amount(s) involved are materially significant, the liability or claim is brought to the Board of Directors for review and discussion. After identification and initial evaluation, the matter is brought by the bookkeeper to the attention of the CEO. The CEO reviews the facts and circumstances of each contingent liability or potential claim against the accrual and disclosure requirements outlined above. The process of evaluating the probability of loss, and the time frame in which the loss has arisen, is conducted in consultation with legal counsel and using all available facts and correspondence regarding each claim or contingency.

If it is determined that a liability is required to be recognized, the bookkeeper shall prepare an internal memo summarizing the facts and the potential impact on the financial
statements of SAMPLE ORGANIZATION, and the topic is placed on the agenda of the next regularly scheduled Board of Directors meeting for review and discussion. If a liability is required to be recognized, the bookkeeper prepares the appropriate journal entry to accrue the liability, which is reviewed by the CEO, and, once approved, given to the Staff Accountant for recording in the general ledger. The Director of Finance shall also prepare the footnote disclosure(s) for any loss contingencies concurrent with the preparation of the annual financial statements immediately after fiscal year end. These disclosures shall be reviewed and approved by the CEO prior to the commencement of final audit fieldwork.

**Related Party Transactions**

**Definitions.** Under Financial Accounting Standards Board (FASB) Statement No. 57, Related Party Disclosures, a related party of SAMPLE ORGANIZATION is defined to include:

- An employee of SAMPLE ORGANIZATION;
- An affiliate of SAMPLE ORGANIZATION;
- Members of the immediate family of an employee of SAMPLE ORGANIZATION;
- A trust for the benefit of employees;
- An entity for which investments are accounted for by the equity method; and
- Any party that can significantly influence the management and operating policies of SAMPLE ORGANIZATION.

**Procedures for Evaluation and Disclosure.** Transactions between or among related parties differ from transactions between unrelated parties in that they are, by definition, not at arm’s length. Not dealing at arm’s length may significantly influence the price and terms of transactions, and make it difficult to distinguish between the form and the substance of the transaction. Except for recurring transactions, it is generally difficult to substantiate that a related party transaction is at arm’s length, as it is generally not possible to determine whether such a transaction would have taken place or what the terms and manner of settlement would have been, had the parties not been related.

As a result, FASB Statement No. 57 requires SAMPLE ORGANIZATION to disclose significant related party relationships and transactions in the annual financial statements. This disclosure is considered significant because it provides the user of the financial statements with relevant information to interpret SAMPLE ORGANIZATION’s operating results. Related party disclosures shall include:

- Name of the related party and nature of the relationship;
- Description of the transaction(s) and effects of such transactions on the financial statements for each period for which a Statement of Activities is presented;
- Dollar amount of the transaction(s);
- Amounts due from or to related parties as of the date of each Statement of Financial Position presented and, if not otherwise apparent, the terms and manner of settlement.
POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

Financial Statements

Standard Financial Statements of the Organization. Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the organization. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

The basic financial statements of SAMPLE ORGANIZATION shall include:

1. **Statement of Financial Position** – reflects assets, liabilities and net assets of SAMPLE ORGANIZATION
2. **Statement of Activities** – presents support, revenues, expenses, and other changes in net assets of the organization, by category of net asset (unrestricted, temporarily restricted and permanently restricted)
3. **Statement of Cash Flows** – reports the cash inflows and outflows of SAMPLE ORGANIZATION in three categories: operating activities, investing activities, and financing activities

Frequency of Preparation. The objective of the Finance Office is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. All financial statements shall be prepared on the accrual method of accounting, in accordance with the following schedule:

**Monthly.** A Statement of Financial Position and a Statement of Activities shall be generated using the accounting software on a monthly basis, no later than the 20th day following the end of the month. These statements shall be used by the bookkeeper to prepare a monthly finance report summarizing income and expenses of SAMPLE ORGANIZATION as compared to budget and to prior fiscal year amounts. This report is reviewed and approved by the CEO, who also investigates any significant variances. Once approved, a copy of this report is distributed to each member of the senior management team, including all department managers responsible for their own budgets.

**Annually.** The Finance Office shall prepare a set of fiscal year-end financial statements, including a Statement of Financial Position, Statement of Activities, and Statement of Cash Flows, footnote disclosures, and supporting schedules to be included in the audit report, in a timely manner in preparation for audit fieldwork. The Finance Office shall prepare an audit work-paper binder including: a copy of the draft annual financial statements, footnote disclosures, consolidated trial balance (showing aggregation of general ledger accounts to arrive at the financial statement amounts), leadsheets showing comparative general ledger balances and explanations for significant year-to-year variances, and other supporting documentation for calculations and footnote disclosures. This binder, and the draft fiscal year-end financial statements, shall be reviewed and approved by the Finance Office prior to the commencement of final audit fieldwork. Preparation, review and approval by each individual shall be noted by signature and date in the audit work-paper binder.
Appendix 5B

It is the responsibility of the bookkeeper to identify and follow the appropriate financial statement presentation and disclosure requirements using: (1) relevant GAAP reference materials, (2) the prior year audited financial statements, and (3) inquiries made of audit firm personnel, where needed. For a more in-depth explanation of preparation for the annual audit, see the Annual Audit section of this manual.

Annual Financial Statements. The CEO shall formally present SAMPLE ORGANIZATION’s annual financial statements (audit report) to the Board of Directors at the next regularly scheduled Board of Directors meeting after the report has been issued by the independent audit firm. Members of the independent audit firm shall also be present at this meeting to present the management letter and any additional audit-related correspondence, and to answer questions. At this meeting, the Board of Directors will vote to accept or reject the annual financial statements. SAMPLE ORGANIZATION provides the Form 990 on an annual basis in accordance with federal law.

Application of New Accounting Standards. It is the policy of SAMPLE ORGANIZATION that the Finance Office shall make reasonable efforts to remain up-to-date regarding new not-for-profit accounting standards via accounting publications, educational conferences, and regular updates of accounting reference materials kept in the office. Should the Director of Finance or Staff Accountant become aware of new accounting standards or pronouncements applicable to SAMPLE ORGANIZATION operations, they shall work together to develop implementation journal entries and related disclosures, and to modify (if needed) on-going accounting procedures and this manual appropriately. These journal entries, disclosures, and procedures are generally corroborated with SAMPLE ORGANIZATION’s external auditors before implementation. Once corroborated, they are communicated to the Board of Directors.

Government Returns. W-2s and 1099s – These forms are the annual reports of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to the federal government by February 28.

Form 941 – This form is the quarterly payroll tax return filed with the IRS to report wages paid to employees and federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.

Federal and all applicable state payroll tax returns are prepared by SAMPLE ORGANIZATION’s third party payroll service center. Copies of all payroll tax returns filed on the organization’s behalf are maintained in a locked filing cabinet reserved for financial data. Access to the filing cabinet is restricted to Finance Office employees.

It is the policy of SAMPLE ORGANIZATION to file complete and accurate returns with all authorities, and to comply with all state payroll tax requirements by withholding and remitting payroll taxes to the state of residency of each employee. SAMPLE ORGANIZATION shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.

- Form 990 – Federal Return of Organization Exempt from Income Tax Is filed annually after the annual audit has been completed.
- Form AG990-IL State of Illinois Return of Organization Exempt from Income Tax. State tax return filed at the same time as the federal Form 990.
FINANCIAL MANAGEMENT POLICIES

BUDGETING

Overview. Budgeting is an integral part of managing any organization in that it is concerned with the translation of organizational goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the organization’s financial and human resources. A budget is management’s commitment of a plan for present and future organizational activities that will ensure survival. It provides an opportunity to examine the composition and viability of the organization’s programs and activities simultaneously in light of the available resources.

Preparation and Adoption. It is the policy of SAMPLE ORGANIZATION to prepare an annual budget on the accrual basis of accounting. To begin the budget preparation process, the CEO shall gather proposed budget information from all department heads. The bookkeeper and Director of Operations, with the assistance of the outsourced accountant, prepares the first draft of the budget, to be submitted to senior executive officers by April 30 of the prior year.

Budget meetings with department heads and senior executive officers are to take place in April. After appropriate revisions, a final draft of SAMPLE ORGANIZATION’s budget is presented by the CEO to the Board of Directors for final approval. The annual budget shall be approved by the Board of Directors and adopted by SAMPLE ORGANIZATION no later than June 15 of the prior year.

Monitoring Performance. It is the policy of SAMPLE ORGANIZATION to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

Budget Modifications. Any modification in SAMPLE ORGANIZATION budget resulting in an increase in budgeted expenses or budgeted capital additions, or a decrease in budgeted revenues, of $100,000 or more shall be made only with approval of the majority of Board Officers.

Capital Budget. The purpose of capital budgeting is to plan for needed capital acquisitions that have a long-term impact on liquidity and future cash flows. A capital budget:

- Lists and describes planned acquisitions and improvements
- Includes the timing and cost of major capital assets
- Includes a list of what is needed, why it is needed and its cost as well as timing of acquisition, useful life of the asset and annual depreciation.

An analysis should be performed that provides information on the net present value and benefit-cost ratio in order to provide management with a clear evaluation of the value of the capital asset. This analysis can also be used in making a case statement about the need for the capital asset for grant application purposes. In addition to a NPV analysis, an IRR analysis can provide good decision-making data.

Each capital request should be accompanied by analysis as well as narrative on the need for the asset as well as how the investment can aid in SAMPLE ORGANIZATION’s mission. Once a capital asset has been approved and transacted, it will be recorded in the books as a capital asset and in the Fixed Asset System.
ANNUAL AUDIT

ROLE OF THE INDEPENDENT AUDITOR. It is the policy of SAMPLE ORGANIZATION to obtain an annual audit of its financial statements from an independent accounting firm that is selected and hired by the Board of Directors.

The accounting firm will be required to communicate directly with the Board of Directors upon the completion of the audit. Audited financial statements, including the auditor’s opinion thereon (the audit report), will be submitted and presented by the CEO to the Board of Directors at its next regularly scheduled meeting after the report has been issued by the independent audit firm. Members of the accounting firm shall also be present at this meeting to present the management letter and any additional audit-related correspondence, and to answer questions.

How Often to Review the Selection of the Auditor. SAMPLE ORGANIZATION shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm; or
2. When a fresh perspective and new ideas are desired.

SELECTING AN AUDITOR. The following factors shall be considered by the Audit Committee of the Board of Directors in selecting an accounting firm:

1. The firm’s reputation in the nonprofit community;
2. The depth of the firm’s understanding of and experience with not-for-profit organizations;
3. The firm’s demonstrated ability to provide the services requested in a timely manner;
4. The firm’s fee; and
5. The ability of firm personnel to communicate with organization personnel in a professional and congenial manner.

If the Audit Committee decides to issue a written Request for Proposal (RFP) to be sent to prospective audit firms, then it shall establish a committee, led by the Treasurer and supported by the CEO, for the purpose of coordinating the audit firm selection process. This committee shall perform the tasks of identifying possible accounting firms, preparing and mailing the RFP, and meeting with prospective firms. The following information shall be included in the RFP:

1. Period of services required;
2. Complete description of the services requested (audit, management letter, etc.);
3. Background information regarding the SAMPLE ORGANIZATION;
4. Questions and areas of interest to be addressed in the proposal; and
5. Due date of proposals and timeline for selection process.

Minimum proposal requirements from prospective CPA firms shall be:

1. Firm background;
2. Biographical information (resumes) of key firm members who will serve the engagement;
3. Client references;
4. Information about the firm’s capabilities;
5. Firm’s approach to performing an audit;
6. Other resources available with the firm;
7. Expected timing and completion of the audit;
8. Expected delivery of reports;
9. Estimated fees; and
10. Other information as appropriate.

In order to narrow down the proposals to the top selections, the committee led by the Treasurer shall meet with the prospective engagement teams from each proposing firm to discuss their proposal. Copies of all proposals shall be forwarded to each member of the committee. After the field of prospective auditors has been narrowed to two or three firms, the committee shall conduct final interviews of each firm and then make a final recommendation to the Board of Directors for approval.

PREPARATION FOR THE ANNUAL AUDIT. SAMPLE ORGANIZATION shall be actively involved in planning for the financial statement audit and responding to auditor inquiries in a prompt manner, so as to ensure a smooth and timely audit of its financial statements. In that regard, assistance shall be provided to the independent auditors in the following areas:

- Planning – The CEO is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.

- Involvement – Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit. The individual primarily responsible for preparing audit work-paper schedules, drafting the financial statements, and responding to audit inquiries is the CEO. The CEO shall review the audit work-paper schedules and draft financial statements prior to the beginning of fieldwork. The CEO may also request and obtain information needed for preparation of the financial statements and audit work-paper schedules from other staff members, such as the bookkeeper or outsourced accountant.

- Interim Procedures – To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the fiscal year-end of SAMPLE ORGANIZATION. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. The bookkeeper will assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of SAMPLE ORGANIZATION to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

Concluding the Audit. Upon receipt of a draft of the audited financial statements of SAMPLE ORGANIZATION from its independent auditor, the bookkeeper shall perform a detailed review of the draft, consisting of the following procedures:
1. Carefully read the entire report for typographical errors;
2. Agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of SAMPLE ORGANIZATION; and
3. Review each footnote for accuracy and completeness.

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the CEO.

It shall also be the responsibility of the CEO, with the assistance of the bookkeeper and in consultation with the Treasurer, to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.

INSURANCE

It is fiscally prudent to have an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of SAMPLE ORGANIZATION.

It is the policy of SAMPLE ORGANIZATION to maintain adequate insurance against general liability, as well as coverage for buildings, contents, automobiles, computers, fine arts, equipment, machinery and other items of value. SAMPLE ORGANIZATION’s insurance shall include workers’ compensation and Directors and Officers Insurance. Detailed information concerning the amounts and types of insurance coverage maintained by SAMPLE ORGANIZATION may be found in the insurance materials kept in Human Resources with duplicates in the Finance Office.

The CEO shall review SAMPLE ORGANIZATION’s insurance coverage at least annually to ensure coverage is at adequate levels.

RECORD RETENTION

Policy. It is the policy of SAMPLE ORGANIZATION to retain records as required by law and to destroy them when appropriate. The destruction of records must be approved by the CEO. All document destruction of financial or otherwise sensitive records shall be performed by use of a professional document destruction service. The formal records retention policy of SAMPLE ORGANIZATION is as follows:

<table>
<thead>
<tr>
<th>TYPES OF RECORD RETENTION</th>
<th>PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable reports</td>
<td>3 years</td>
</tr>
<tr>
<td>Accounts payable reports</td>
<td>3 years</td>
</tr>
<tr>
<td>Auditors’ reports/work papers</td>
<td>Permanent</td>
</tr>
<tr>
<td>Bank deposit slips</td>
<td>3 years</td>
</tr>
<tr>
<td>Bank statements, reconciliations</td>
<td>7 years</td>
</tr>
<tr>
<td>Budgets</td>
<td>3 years</td>
</tr>
<tr>
<td>Cancelled checks</td>
<td>7 years</td>
</tr>
<tr>
<td>Cash disbursements journal</td>
<td>Permanent</td>
</tr>
<tr>
<td>Cash receipts journal</td>
<td>Permanent</td>
</tr>
<tr>
<td>Depreciation records</td>
<td>Permanent</td>
</tr>
<tr>
<td>Employee expense reports</td>
<td>3 years</td>
</tr>
<tr>
<td>Volunteer expense reports</td>
<td>3 years</td>
</tr>
<tr>
<td>Independent contractor expense reports</td>
<td>3 years</td>
</tr>
</tbody>
</table>
### TYPES OF RECORD RETENTION

<table>
<thead>
<tr>
<th>Record Type</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee payroll records (W-2, W-4, annual earnings records, etc.)</td>
<td>4 years</td>
</tr>
<tr>
<td>Financial statements (annual)</td>
<td>Permanent</td>
</tr>
<tr>
<td>Financial statements (interim/internal)</td>
<td>Permanent</td>
</tr>
<tr>
<td>General journal or ledger</td>
<td>Permanent</td>
</tr>
<tr>
<td>Inventory lists</td>
<td>Permanent</td>
</tr>
<tr>
<td>Invoices</td>
<td>3 years</td>
</tr>
<tr>
<td>Payroll journal</td>
<td>4 years</td>
</tr>
<tr>
<td>Petty cash records</td>
<td>3 years</td>
</tr>
<tr>
<td><strong>Corporate Records</strong></td>
<td></td>
</tr>
<tr>
<td>Annual Report (State of Illinois)</td>
<td>Permanent</td>
</tr>
<tr>
<td>Constitution</td>
<td>Permanent</td>
</tr>
<tr>
<td>Bylaws</td>
<td>Permanent</td>
</tr>
<tr>
<td>IRS Determination Letter</td>
<td>Permanent</td>
</tr>
<tr>
<td>Contracts, sales (UCC)</td>
<td>4 years</td>
</tr>
<tr>
<td>Contracts, generally</td>
<td>10 years*</td>
</tr>
<tr>
<td>Contracts, government</td>
<td>4 years*</td>
</tr>
<tr>
<td>Minutes (board executive session)</td>
<td>Permanent</td>
</tr>
<tr>
<td>Minutes (board and committees with Board authority)</td>
<td>Permanent*</td>
</tr>
<tr>
<td>Minutes (committees without Board authority)</td>
<td>5 years</td>
</tr>
<tr>
<td>Qualifications to do business</td>
<td>Permanent</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>Accident reports</td>
<td>6 years</td>
</tr>
<tr>
<td>Insurance claims</td>
<td>6 years*</td>
</tr>
<tr>
<td>Insurance policies</td>
<td>Permanent</td>
</tr>
<tr>
<td><strong>Miscellaneous Legal</strong></td>
<td></td>
</tr>
<tr>
<td>Claims and litigation files</td>
<td>10 years*</td>
</tr>
<tr>
<td>Copyright, patent and trademark Registrations</td>
<td>Permanent</td>
</tr>
<tr>
<td><strong>Personnel</strong></td>
<td></td>
</tr>
<tr>
<td>Applications</td>
<td>1 year</td>
</tr>
<tr>
<td>Employee earnings/payroll records</td>
<td>6 years*</td>
</tr>
<tr>
<td>Employee files</td>
<td>6 years*</td>
</tr>
<tr>
<td>Employee pension records, including Service, eligibility, personal</td>
<td>6 years*</td>
</tr>
<tr>
<td>information, pensions paid</td>
<td></td>
</tr>
<tr>
<td>Employment contracts</td>
<td>10 years</td>
</tr>
<tr>
<td>Garnishments</td>
<td>10 years</td>
</tr>
<tr>
<td>Government reports</td>
<td>6 years</td>
</tr>
<tr>
<td>Pension, profit-sharing plans</td>
<td>Permanent</td>
</tr>
<tr>
<td>Time cards/sheets</td>
<td>4 years</td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td></td>
</tr>
<tr>
<td>Income tax returns and cancelled checks</td>
<td>Permanent (Federal, state, and local)</td>
</tr>
<tr>
<td>Payroll tax returns</td>
<td>4 years</td>
</tr>
<tr>
<td>Sales and use tax returns</td>
<td>10 years</td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>Supporting correspondence and notes re-patents, copyrights, Greater of life of principal licenses, agreements, Bills of sale, permits, liabilities, etc., document which it supports</td>
<td>3 years</td>
</tr>
</tbody>
</table>

An asterisk (*) following a number signifies that the retention period begins after final payment, settlement expiration, termination, sale, and so forth.

### Note