Preview: Principles and Practices

- Board Member & Staff Financial Responsibilities
  - Duties of Care and Loyalty
  - Conflicts of Interest
- Planning and Budgeting
- Understanding Financial Reports
  - Statement of Activities, Statement of Financial Position, Statement of Cash Flows, etc.
- Establishing Internal Financial Controls
- The Public Support Test
- Establishing other Best Practice Policies
The term “fiduciary” comes up frequently in conversations about board responsibilities (as in “Our board must meet its fiduciary responsibilities!”). Indeed, safeguarding organizational assets, or holding them “in trust” on behalf of others, is one of the most important board functions. Staff must support these functions and the chief executive will have special responsibility to meet fiduciary duties of his/her own.
Board Member Responsibilities

- All Board Members Are In A Position Of Great Trust
  - Financial Viability
  - Program Success
  - Survival – it’s not just a television game show

- All Board Members Have Fiduciary Responsibility
  - A trust held for the greater community
  - Dedicated to protecting the common good
  - It’s required by law – federal government through the IRS and Colorado State Law.
In governing, directors have two basic duties: a duty of care to the corporation and a duty of loyalty. Both of these duties are expressed, together, in state and federal law. Directors of charities are required by law to carry out their responsibilities as directors “in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.”
As a practical matter, a director cannot carry out his or her duty of care without minimally doing the following:

- First and foremost, a director must attend meetings and read materials provided at meetings and in advance of meetings. A director cannot exercise a duty of care if the director is absent.

- Directors must be familiar with the organization they represent, including the mission as set forth in the Articles of Incorporation and in mission statements, the activities of the organization, and the organizational structure and key staff positions.

- Directors should have a basic working knowledge of the main tax laws that affect charities (e.g., Section 501(c)(3)). They should also have a working knowledge of the state charitable trust rules that govern the charitable assets of a corporation. (A substantive discussion of these two areas of law is beyond today’s scope).
Duty of Loyalty

- The duty of loyalty is fundamentally about putting the interests of the corporation before the director’s own interests. In addition to the legal standards, charities often survive or perish based on their reputation and goodwill in the community. Perceived or actual conflicts of interest, as reported in the press, whether accurate or not, can often do great damage to the reputation of a charity. Damage to reputation can affect the ability of a charity to fundraise and obtain grants, which can obviously impact the fiscal health of the charity.

- Colorado law specifically addresses conflicts of interest in by statute. Charities should seek to avoid conflicts of interest by adopting policies that prohibit certain types of conflicts and that require Board members to disclose potential conflicts, at least annually. A well-drafted conflicts of interest policy and disclosure form can provide a significant benefit to a charity and lack of one is a red flag on the nonprofit tax return – the 990.
Conflict of Interest

- A conflict of interest arises when a board or a staff member is in a situation where his decision making may be impaired by personal, financial, or other business concerns that may not promote the best interest of the organization. A conflict of interest may be real or perceived. Both can have detrimental effects for the organization or its reputation.

- It is impossible to entirely avoid conflicts of interest. They are natural. They are not illegal. But they must be managed **every single time**. The board must ensure it has drafted a strong conflict-of-interest policy with disclosure and recusal guidelines and that this policy is enforced without failure.

- Here are some sample conflict-of-interest policies:
  - Office of Minnesota Attorney General [www.ag.state.mn.us/pdf/charities/ConflictInterestPolicy.pdf](http://www.ag.state.mn.us/pdf/charities/ConflictInterestPolicy.pdf)
Fiduciary responsibility includes a constellation of concepts. It requires the board, often working in concert with the chief executive, to:

- **Plan & Budget:** review and approve how the organization budgets, spends, and makes money
- **Understand Revenue & Expenditures:** establish and follow monetary policies that balance short and long-term needs
- **Implement Internal Financial Controls:** verify that the organization’s financial systems and practices meet accepted standards
- **Consider Adequacy of Cash Reserves:** ensure that the organization has adequate operational reserves for rainy days and to take advantage of unexpected opportunities.
Planning and Budgeting
Accounting: Put Good Systems in Place
Compliance
Reporting: Know What is Going on
Analyze & Evaluate
Financial Management Cycle
For every activity to be undertaken, including all programs, fundraising, and general management, the plan should address the financial implications. In fact, a strategic plan that does not include an adequate financial component is guaranteed to fail. Therefore, the planning process should include . . .
Budgeting for Priorities:

WHAT IS THE PRIORITY OF YOUR BUDGET REQUEST?

HIGHEST OF THE HIGH.

EVERYONE RATED THEIR OWN BUDGET NEEDS "HIGHEST PRIORITY." IT IS A MOCKERY OF THE PRIORITY SYSTEM!

NAME ONE THING THAT EVERYONE WOULD AGREE IS A LOW PRIORITY.

WHATEVER YOU'RE DOING.
Planning & Budgeting

The planning process should include:

- evaluating existing and potential financial resources
- examining internal and external environmental forces affecting the organization and its funding
- reviewing the cost and effectiveness of existing programs
- examining alternatives and their financial implications
Spending 72 percent of total expenses on program services and 28 percent on management and fundraising is:

A. Too much on programs.
B. Too little on management and fundraising.
C. Just the right amount on programs.
D. All of the above.
E. None of the above.
How do you build a budget?

- Start with a good hard look at the prior year.
  - Were last year’s revenues similar to what one would expect this year. If not why not? Factor in differences for expected new revenues from grants, programs, etc. Likewise reduce revenue sources that will not repeat from last year, like program funds for a completed program, or one time grants, or extraordinarily large donations.

- Do the same for expenses.
  - Will there be staff changes, specific program needs, capital expenditures, technology needs, etc.
  - While this sounds obvious, it’s amazing how few organizations really do this well.
Program/Projects – Budgeting Costs

I need a description of your project and its projected cost.

That's impossible.

The project uncertainty principle says that if you understand a project, you won't know its cost, and vice versa.

You just made that up.

That doesn't make it wrong.
Budgeting beyond the numbers

- Beyond analyzing dollars and cents, the budgeting process also gives the organization to step back and look at the BIG picture. Planners should be asking themselves questions like:
  - Are we spending more on salaries than programs? If so, can we justify it?
  - Is fundraising spending producing desired results? If not, why? Should we be spending less or more there?
  - Is our overall mission reflected in our budget? How so, how, if not why not?
Spending 72 percent of total expenses on program services and 28 percent on management and fundraising is:

- A. Too much on programs.
- B. Too little on management and fundraising.
- C. Just the right amount on programs.
- D. All of the above.
- E. None of the above.
All board members – not just those who have special financial expertise – must understand the financial condition of the organization well enough to “serve and protect” the organization.

- Financial understanding is a prerequisite of wise decision making on all types of nonprofit matters.
The Physics of Accounting, huh?

- In the world of science and physics there is a principle with which you may be familiar:
  - For every action there is an equal and opposite reaction.

- The same principal is true in what we call double entry accounting.
  - Debits must equal credits (aka double entry accounting)
  - Assets = Liabilities + Net Assets (aka Equity)
  - It is the ultimate zero sum game.
There is no single standard for all nonprofits regarding which financial reports the board should receive.

Best Practices suggest the following types of reports should be utilized on a regular basis:

- Statement of Activities – aka Profit and Loss Statement, aka Statement of Revenue and Expense (comparative showing prior year);
- Statement of Financial Position – aka Balance Sheet (comparative showing prior year);
- Statement of Cash Flows (ties out cash to bank reconciliations and prior year)
- Budget versus Actual with explanations for major variances
- P & L by class, P & L by job, etc.
- Bank Reconciliations should be performed monthly and should be available for the asking.
- Third-party preparation of all of these -- especially Bank Recs helps boards enforce internal controls.
The Importance of Accurate Information

ALL OF OUR DATA IS GROSSLY INACCURATE... BUT I NEED DATA IN ORDER TO MANAGE.

IF I CONCENTRATE HARD ENOUGH I CAN FORGET THAT THE DATA IS BAD, THEN I CAN USE IT.

I HAVE TO GIVE HIM CREDIT; MANAGING IS HARDER THAN IT LOOKS.
Financial Literacy Test!

- Improper financial management practices always include:
  - A. Operating with a deficit budget.
  - B. Failing to produce reports with all transactions.
  - C. Not distributing financial information to the board until three months after the end of the period.
  - D. All of the above.
  - E. Both B and C.
  - F. Both A and B.

- The correct answers should be apparent by the end of this program.
The primary objective of financial reporting is to communicate understandable information that is useful in making business decisions. To achieve this objective the information must be:

- Accurate
- Timely
- In the proper format
Statement of Activities

- A.k.a. Profit and Loss Statement;
- A.k.a. Revenue & Expense Statement
## Statement of Activities (P & L)

### Profit & Loss Prev Year Comparative

**July 2011**

**Cash Basis**

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>Jul 11</th>
<th>Jul 10</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>12.00</td>
<td>1,437.77</td>
<td>-1,425.77</td>
</tr>
<tr>
<td>Interest &amp; Dividend Income</td>
<td>56.70</td>
<td>1,475.02</td>
<td>-1,418.32</td>
</tr>
<tr>
<td>Project Fees</td>
<td>0.00</td>
<td>3,100.00</td>
<td>-3,100.00</td>
</tr>
<tr>
<td>Total Income Fees</td>
<td>0.00</td>
<td>3,100.00</td>
<td>-3,100.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>68.70</td>
<td>6,912.79</td>
<td>-5,944.09</td>
</tr>
<tr>
<td>Expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Expense</td>
<td>0.00</td>
<td>19.00</td>
<td>-19.00</td>
</tr>
<tr>
<td>Contractual</td>
<td>7,750.00</td>
<td>0.00</td>
<td>7,750.00</td>
</tr>
<tr>
<td>Insurance</td>
<td>0.00</td>
<td>99.87</td>
<td>-99.87</td>
</tr>
<tr>
<td>Total Insurance</td>
<td>0.00</td>
<td>99.87</td>
<td>-99.87</td>
</tr>
<tr>
<td>Investment Mgmt &amp; Bank Fees</td>
<td>0.00</td>
<td>1,305.48</td>
<td>-1,305.48</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>7.61</td>
<td>118.66</td>
<td>-110.67</td>
</tr>
<tr>
<td>Payroll Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Insurance</td>
<td>0.00</td>
<td>758.93</td>
<td>-758.93</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colorado Unemployment</td>
<td>0.00</td>
<td>20.97</td>
<td>-20.97</td>
</tr>
<tr>
<td>FICA Expense</td>
<td>0.00</td>
<td>605.25</td>
<td>-605.25</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>0.00</td>
<td>626.22</td>
<td>-626.22</td>
</tr>
<tr>
<td>Wages</td>
<td>0.00</td>
<td>7,911.81</td>
<td>-7,911.81</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>0.00</td>
<td>6.15</td>
<td>-6.15</td>
</tr>
<tr>
<td>Total Payroll Expenses</td>
<td>0.00</td>
<td>9,303.11</td>
<td>-9,303.11</td>
</tr>
<tr>
<td>Postage &amp; Delivery</td>
<td>0.00</td>
<td>265.50</td>
<td>-265.50</td>
</tr>
<tr>
<td>Printing &amp; Reproduction</td>
<td>149.98</td>
<td>0.00</td>
<td>149.98</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>6,580.00</td>
<td>1,015.25</td>
<td>7,564.75</td>
</tr>
<tr>
<td>Rent</td>
<td>296.24</td>
<td>341.24</td>
<td>-45.00</td>
</tr>
<tr>
<td>Storage Expense</td>
<td>90.00</td>
<td>0.00</td>
<td>90.00</td>
</tr>
<tr>
<td>Taxes - w/o investment accts</td>
<td>0.00</td>
<td>4.05</td>
<td>-4.05</td>
</tr>
<tr>
<td>Telephone</td>
<td>214.55</td>
<td>0.00</td>
<td>214.55</td>
</tr>
<tr>
<td>Travel, Meals &amp; Entertainment</td>
<td>34.16</td>
<td>0.00</td>
<td>34.16</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.00</td>
<td>295.84</td>
<td>-295.84</td>
</tr>
<tr>
<td>Vehicle Expense</td>
<td>0.00</td>
<td>189.37</td>
<td>-189.37</td>
</tr>
<tr>
<td>Total Expense</td>
<td>17,122.74</td>
<td>13,038.39</td>
<td>4,084.35</td>
</tr>
<tr>
<td>Net Ordinary Income</td>
<td>-17,054.04</td>
<td>-7,025.60</td>
<td>-10,028.44</td>
</tr>
</tbody>
</table>
Revenue Dynamics

- Where does the organization’s money come from?
- Do we run at a “gain” or “loss”?
- How does the Board ensure appropriate actions with respect to revenue?
- Is revenue at risk?
- Compared to last year, are we better or worse off?
- Do the revenue streams appear reliable/consistent?
- What amount of cash reserves will protect the organization if revenue streams are insufficient?
The Fountain of Nonprofit Funding

“By God, gentlemen, I believe we’ve found it—the Fountain of Funding!”
Revenue - ?’s the Board Should Ask

1. Do we need to develop more diverse sources of net revenue from programs, services, publications, membership, and the like, assuming they are appropriate to our mission?

2. What is our contingency plan in the event a major source of revenue or contributor suddenly disappeared?

3. What is the optimal percentage of earned income, private contributions, membership dues, or other sources of income that we wish to achieve in order to build a diverse and stable revenue stream?

4. What are our expectations for board members’ involvement in fundraising? Do we clearly articulate this expectation?

5. Do board members help to identify and cultivate possible funders and major donors?

6. Should the board set an annual goal of 100 percent participation for board member giving to motivate personal philanthropy?
Expense Dynamics

- Where are we spending our money?
- How has that changed over the last year?
- Are there particular expenses that seem extraordinary?
  - Does management explain these extraordinary items?
- Are there areas where expenses need to be cut?
- Are there areas where expenses need to be increased? -- see budgeting module of this presentation for more.
Cost Benefit Analysis

My computer is too slow. I need to upgrade it.

I need a cost-benefit analysis including the cost of all alternatives, and vice president approval.

It was easier to get a second job and pay for the upgrade myself.

**Assets**
- Current Assets
  - Cash
  - Cash Equivalents
  - Receivables (Short-Term)
  - Inventories
  - Prepaid Expenses
- Fixed Assets
  - Furniture & Equipment
  - Plant
  - Property
  - Accumulated Depreciation
- Other Assets
  - Deposits
  - Long-Term Investments

**Liabilities**
- Current Liabilities
  - Accounts Payable
  - Accrued Expenses
  - Payroll Liabilities
  - Deferred Revenue
  - Refundable Advances
  - Line of Credit
  - Current Portion of Loan
- Long-term Liabilities
  - Bond
  - Mortgage
  - Loan (over 1 year)

**Net Assets**
- Unrestricted
- Temporarily Restricted
- Permanently Restricted

**Debit Balance**
- Green

**Credit Balance**
- Yellow
Balance Sheet Cheat Sheet

Please refer to the eponymous supplementary handout.
All Services to All People of Inc.  
Balance Sheet  
December 31, 2009

<table>
<thead>
<tr>
<th>Assets</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in checking</td>
<td>$65,570</td>
<td></td>
<td>$65,570</td>
</tr>
<tr>
<td>Savings</td>
<td>$57,800</td>
<td>$40,000</td>
<td>$97,800</td>
</tr>
<tr>
<td>Investments</td>
<td>$26,000</td>
<td></td>
<td>$26,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$51,130</td>
<td></td>
<td>$51,130</td>
</tr>
<tr>
<td>Gov't Grants &amp; Contracts Receivable</td>
<td>$39,000</td>
<td></td>
<td>$39,000</td>
</tr>
<tr>
<td>Grants Receivable</td>
<td>$17,000</td>
<td>$40,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Pledges Receivable Subtotal Current Assets</td>
<td>$256,500</td>
<td>$80,000</td>
<td>$336,500</td>
</tr>
<tr>
<td>Prepaid Expense</td>
<td>$2,200</td>
<td></td>
<td>$2,200</td>
</tr>
<tr>
<td>Land</td>
<td>$20,000</td>
<td></td>
<td>$20,000</td>
</tr>
<tr>
<td>Building</td>
<td>$609,386</td>
<td></td>
<td>$609,386</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>$177,300</td>
<td></td>
<td>$177,300</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>$39,110</td>
<td></td>
<td>$39,110</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>($681,590)</td>
<td></td>
<td>($681,590)</td>
</tr>
<tr>
<td>Subtotal Long Term Assets</td>
<td>$676,406</td>
<td></td>
<td>$676,406</td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,012,906</td>
<td>$80,000</td>
<td>$1,092,906</td>
</tr>
</tbody>
</table>

| Liabilities                    |              |                        |            |
| Accounts payable               | $49,055      |                        | $49,055    |
| Payroll Tax Payable            | $6,024       |                        | $6,024     |
| Deferred revenue               | $5,300       |                        | $5,300     |
| Accrued Vacation               | $26,720      |                        | $26,720    |
| Note (loan) Payable            | $60,000      |                        | $60,000    |
| Current Portion Long Term Debt | $29,904      |                        | $29,904    |
| Subtotal Current Liabilities   | $197,203     |                        | $197,203   |
| Mortgage Loan Payable          | $482,662     |                        | $482,662   |
| Less: Current Portion Long Term Liabilities | ($29,904) | (29,904) |
| Subtotal Long Term Liabilities | $452,758     |                        | $452,758   |
| Total liabilities              | $649,961     |                        | $649,961   |

Net Assets                     
Net Assets beginning of year   | $255,721     | $20,000                | $275,721   |
Change in Net Assets            | $27,224      | $60,000                | $87,224    |
Net Assets                      | $282,945     | $80,000                | $362,945   |
Total liabilities & net assets  | $232,206     | $80,000                | $1,012,906 |

Working Capital Ratio:  
(Unrestricted Net Assets – Net Fixed Assets) / (Annual Cash Disbursements / 365)  
ASAPM: ($282,945 - ($20,000 + 609,386 + 177,300 + 39,110 - 181,590 - 482,662)) / ($878,325* / 365)  
= 42 Days Working Capital

Days Cash on Hand:  
Total Available Cash / (Annual Cash Disbursements / 365)  
ASAPM: ($65,570 + $57,800 + $26,000) / ($878,325* / 365)  
= 62 Days Cash

Current Ratio:  
Current Assets / Current Liabilities  
ASAPM: $256,500 / $197,203 = 1.3

Debt to Equity Ratio:  
Total Liabilities / Total Unrestricted Net Assets  
ASAPM: $649,961 / $282,945 = 2.3

Temporarily Restricted Assets:  
Do we have assets obligated for use in a future period?

Change in Unrestricted Net Assets:  
Also called net income, profit/loss, surplus/deficit  
ASAPM: $27,224 surplus

*Annual Cash Disbursements ($878,325) can be found using information from the Income Statement
While standard nonprofit financial reports – the Budget, Income Statement and Balance Sheet – provide important management information, these statements alone do not tell whether there is enough cash on hand to pay for an unexpected heating repair, to take on a new program opportunity, or even to cover payroll next month. For this, effective cash flow management is essential.
### Statement of Cash Flows

**Fiscal Year July 2010 through June 2011**

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>July 10 - June 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>43300 · Direct Public Grants</td>
<td>12,510</td>
</tr>
<tr>
<td>43400 · Direct Public Support</td>
<td>5,591</td>
</tr>
<tr>
<td>44400 · Government Contracts</td>
<td>272,274</td>
</tr>
<tr>
<td>44500 · Government Grants</td>
<td>46,815</td>
</tr>
<tr>
<td>45000 · Investment Income</td>
<td>400</td>
</tr>
<tr>
<td>46400 · Other Types of Income</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>342,590</strong></td>
</tr>
<tr>
<td>Expense</td>
<td></td>
</tr>
<tr>
<td>60300 · Awards and Grants</td>
<td>15,000</td>
</tr>
<tr>
<td>60900 · Non-Budgeted Event Expenses</td>
<td>65</td>
</tr>
<tr>
<td>62800 · Facilities and Equipment</td>
<td>59</td>
</tr>
<tr>
<td>65000 · Operating Expenses</td>
<td>101,544</td>
</tr>
<tr>
<td>66000 · Personnel Expenses</td>
<td>210,738</td>
</tr>
<tr>
<td>67000 · Contract services</td>
<td>11,053</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td><strong>338,459</strong></td>
</tr>
<tr>
<td><strong>Net Ordinary Income</strong></td>
<td><strong>4,131</strong></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>4,131</strong></td>
</tr>
<tr>
<td><strong>Adjustment to Net Income</strong></td>
<td></td>
</tr>
<tr>
<td>Investing Activities</td>
<td></td>
</tr>
<tr>
<td>15000 · Furniture and Equipment:15020 · Equipment</td>
<td>(4,578)</td>
</tr>
<tr>
<td>16400 · Vehicles</td>
<td>(20,100)</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td>(24,678)</td>
</tr>
<tr>
<td>Liabilities at beginning of period</td>
<td>8,818</td>
</tr>
<tr>
<td>Liabilities at end of period</td>
<td>4,366</td>
</tr>
<tr>
<td><strong>Net change in liabilities</strong></td>
<td>4,451</td>
</tr>
<tr>
<td>Cash at beginning of period</td>
<td>120,972</td>
</tr>
<tr>
<td>Cash at end of period</td>
<td>95,973</td>
</tr>
</tbody>
</table>
This report shows cash activity for the entire fiscal year (7/1/2010 - 6/30/2011).

1. This figure represents the net income for the reporting period (7/1/2010 - 6/30/2011) from all activities within

2. This figure represents new computer & equipment purchases
   - 9/29/10 - $1038 - computer
   - 10/18/10 - $1246 - generator
   - 4/22/11 - $2293 - computer

3. This figure represents the purchase of a new vehicle ($20,100 on 5/18/11).

4. This figure represents the net change during the reporting period in liabilities which include accounts payable, payroll liabilities, and the citibank credit card.

5. This figure represents sum of all cash assets as of 6/30/2011. The difference between Cash at the beginning of the year, $120,972 and Cash at the end of the year $95,973 is $24,999. The explanation for this difference is that $24,678 came from investing activities. This leaves $321 for the actual decrease in cash for the entire fiscal year.
Internal controls are basically accounting systems and best practices that are designed to build in checks and balances to prevent theft, fraud, or plain old incompetency. They are systems to help those relying on accounting information to know that it was obtained in a responsible and professional manner.
Because nonprofits hold their assets in a position of trust, accounting controls are vital to ensuring that trust.

Accounting controls are the methods and procedures a company uses to ensure the accuracy and validity of their financial statements. They do not ensure law and regulatory compliance, but they are designed to help your company comply. The internal controls protect you from abuse and fraud, and make sure all information is received in an accurate and timely manner. Most common controls include those in the following slides.
Control of cash is one of the most important aspects of an internal accounting control system. Allow only a few trusted employees to make cash deposits, and require these employees to make deposits as soon and as frequently as possible. Keep records of all deposits—both internally generated records and bank deposit slips—and compare them to your bank statement each month.

Hold cash in a secure location when it is on hand. Keep prepared deposits in a locked safe until the deposits are made, and secure cash registers with individual authentication so that you know who accessed which register at which times. Require approval from a select few employees for all cash disbursements, including payroll, accounts payable and refunds to customers.
Separation of Duties – General Controls

- Assign separate cash handling and accounting duties among various staff members, and even various departments, if possible.
- Involve as many different responsible people as possible— but limit each person to only one part of the process.
- Use only pre-numbered checks or an electronic bill pay system with security.
- Use accounting software to print checks – period. No handwritten checks.
- Keep all unused checks in a locked cabinet or closet and limit the number of people with access to the checks.
- Limit check signers to trustees and management and pay only from invoices. Do not process statements from vendors.
- NEVER pay a vendor without a valid invoice or contract.
- Mark invoices “paid” to avoid duplicate payments.
- Follow the same procedures for wire transfers as for checks.
- Someone other than the person writing the check should review the documentation and sign the check.
- Require two signatures for amounts above a set threshold. Someone other than the person writing and mailing the checks should receive the unopened bank statement and review the contents before it is reconciled.
Documentation & Security

- **Documentation**
  - Store copies of all cash register tapes, receipts, invoices, cancelled checks and any other documentation that records cash transactions. Use these documents as a paper trail to investigate cash losses and discrepancies between internal records and bank statements.

- **Information Security**
  - Implement physical and electronic security measures to ensure the safety of financial information. Store sensitive documents in secure areas, such as locked filing cabinets that are accessible only to select employees. Protect financial data stored on your company network by hiring a network administration team or contracting with a third-party network security company. Anyone with physical or electronic access to financial data can alter, replace, steal or destroy evidence of theft or other financial mismanagement.
Payroll Controls

- Payroll and related activities are fraught with dangers that can cause an organization to lose its 501(c) 3 status.
- Internal controls should be strict so as not to let this happen. For example:
  - Require a quarterly payroll report from staff or your accountants.
  - Require taxes be paid via EFT by an independent third party accountant or by senior staff.
  - Insist on seeing copies of state and federal payroll tax returns and the checks paying those taxes at least quarterly.
  - Require the chief executive to check with the Internal Revenue Service periodically to verify all taxes owed by the organization are paid currently and in full.
CPA Audits, Reviews and Compilation Reports

- Obtain third-party CPA Audits, Review, or Compilation Report from time to time, to get an outsider's look into your financial control systems. Only work with CPA’s who have no material connection to your company or employees.

- Annual audits may be required for some nonprofits by their funding sources. If not, consider if a less expensive Review or Compilation Report will suffice most years with a full-blown audit periodically.
Donor Restricted Funds

- FASB116 focuses on the concept of restricted revenue. Under FASB116 all contribution revenue must be classified as either: unrestricted, temporarily restricted or permanently restricted. The existence of restrictions is determined by "donor-imposed" restrictions, internal restrictions (such as Board designated funds) are considered unrestricted.

- Permanently restricted support includes all contributions, which are not expendable by the NFP.
  - The most prevalent example of this is an endowment fund. Typically the organization is not able to use the principal but is able to use the investment earnings.
  - The earnings on permanently restricted funds may be further restricted for use for a given purpose, thus resulting in temporarily restricted revenue.

- Temporarily restricted consists of contributions with donor-imposed restrictions that limit the use of the funds as follows:
  - Purpose-restricted: These are funds that are donor-restricted for use on a particular project.
  - Time-restricted: These are funds that are donor-restricted for use in a certain time period. An example of this is a unconditional pledge that stipulates the funds will be donated to the NFP over a 5-year period. The amount to be received in future years is considered time-restricted.

- Unrestricted support consists of all other revenue
The Public Support Test

This public support test was designed for charities which derive a significant proportion of their revenues from donations from the public, including foundation grants, and governmental grants. The test has two variations. If an organization can satisfy either of the two variations of this support test, it will qualify as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1).
The first variation is known as the one-third test. A charity can satisfy this test if public support is one-third or more of the total support figure. Nothing more is needed if this mathematical fraction is attained.
To determine the charity’s support base, which is the denominator of the fraction, we add the following revenue items for the measuring period:

- Gifts, grants, contributions, and membership fees received.
- Gross investment income (e.g., interest, dividends, rents, royalties, but not gains from sale of capital assets).
- Taxable income from unrelated business activities, less the amount of any tax imposed on such income.
- Benefits from tax revenues received by the charity, and any services or facilities furnished by the government to the charity without charge, other than those generally provided to the public without charge.
- Plus all other revenues except for . . .
Government grants (not fee-for-service contracts) are included in full.

Gifts, grants, contributions, and membership fees from other public charities qualified under Section 170(b)(1)(A)(vi) are included in full.

Gifts, grants, contributions, and membership fees from all other sources are counted in full, so long as the amount from each source does not exceed 2% of total support – that is, 2% of the denominator.

Larger gifts, grants, contributions, and membership fees may be counted up to 2% of the total support figure, but no more. Any amounts above that figure are not counted as public support. Note: When applying the 2% limit, amounts from certain related family members, and from businesses and their major owners, are combined and treated as coming from one source.

Benefits from tax revenues received by the charity, and any services or facilities furnished by the government to the charity without charge, other than those generally provided to the public without charge, are counted in full.
Public Support Test - Results

- **The One-Third Test.** If the public support figure is one-third or more of the total support figure, when the two are combined in a fraction, the organization will qualify automatically as a public charity.

- **The 10% Facts and Circumstances Test.** If the public support fraction is less than one-third but more than one-tenth, the organization turns to the alternate public support test for donor-supported charities. The organization must provide evidence to the IRS that it meets the following two requirements:
  1. **Attraction of Public Support.** The organization must be so organized and operated as to attract new and additional public or governmental support on a continuous basis.
  2. **Multi-Factor Analysis.** The organization must show that it is in the nature of a publicly supported organization, taking into account five factors.
How does that make you feel?

Whew!
Cash Reserves

- Having sufficient liquidity (cash and cash reserves) is critical to any nonprofit organization.

- Board members should elect to set aside cash reserves as temporarily restricted funds to be used when expenses exceed revenues or when unexpected expenses arise. Alternatively, reserves can be unrestricted funds, but for the same purposes.

- Designated cash reserves result from efficiencies generating from operations including:
  - Efficient use of resources
  - Increased sources of revenue
Improper financial management practices always include:

- A. Operating with a deficit budget.
- B. Failing to produce reports with all transactions.
- C. Not distributing financial information to the board until three months after the end of the period.
- D. All of the above.
- E. Both B and C.
- F. Both A and B
- G. Both A and C

Answer . . .
Some of the Principles and Practices in the scope of our discussion are not strictly “financial” in nature, but are nonetheless vitally important to the nonprofit organization.
Whistleblower Policy

- When Congress enacted the Sarbanes-Oxley Act, following the scandalous behavior of corporate America, it included two provisions that also apply to nonprofits. Federal law prohibits all corporations, including nonprofits, from retaliating against employees who “blow the whistle” on their employer’s accounting practices. Additionally, over 45 different states have enacted laws to protect whistleblowers from retaliation at the workplace. Consequently, having a good internal process for addressing complaints including a whistleblower protection/anti-retaliation policy can help your organization protect itself from the risk of violating state and federal laws that afford protections to whistleblowers, and can help ensure that if there is a problem it will be investigated and fixed.
Credit Card Use

Policies regarding company credit cards should minimally cover:

- Who can obtain a credit card? What is the maximum credit limit?
- What procedures and approvals should be in place to control spending and to provide timely and accurate reporting of expenses as they occur?
- What is the payment policy (i.e., pay in full each month)? What supporting documentation is required for credit card charges?
Expense & Credit Card Reimbursement

- Create a standardized expense reimbursement request form with instructions for completion. Excel can be used for the form so totals will be automatically calculated once the form is completed.
- Require appropriate documentation for all expense reimbursement requests.
- Require the submitter of the expense reimbursement request to sign the request. Require an approval for operational staff requests by their immediate supervisors and approval for non-staff requests by operational staff.
- Let employees know that expenses will be audited. This could produce better self-monitoring of expense reports submitted by employees. If these audit costs need to be reduced (maybe there are many reports with a small average dollar amount), randomly audit the reports. Those employees with errors on their reports should have all future reports audited as long as errors continue.
- Let employees know which expenses are allowable.
Compliance

- Major forms of compliance for nonprofits are:
  - IRS Form 990 (federal tax return)
  - Payroll Tax Returns
    - Federal
    - State
  - State Reporting – online annual business registration
  - State Reporting – online charitable solicitation registration
Investment Policies

- Investment policies refer to policies the board has defined and/or approved guiding how the various organizational funds should be invested.

- Your investment policy should clarify the following points:
  - investment objectives
  - specific funds affected
  - asset allocation guidelines including diversification
  - spending rules
  - investment restrictions
  - performance measurement
  - reporting requirements
What is the Role of the CFO?

The role carried out by the CFO is not merely a discrete strategic activity that articulates and implements the organization’s financial planning and strategy. To be successful, the role must be integrated into all organizational processes including budget, audit, financial and program planning, and programmatic strategic planning, and must understand how the whole organization works. The CFO understands the “holistic” nature of the finance department and can define and implement the strategic value of every role – even those seemingly limited to transactional responsibilities.

Based on the resources of the organization, outsourcing the CFO function on a part-time or full-time basis can be an effective option to establish this capacity. An outsourced CFO can play an invaluable role by providing the following services:

- Working with the current finance, program, and development staff to support and expand the strategic capacity of the financial function. This includes identification of the financial goals of the organization, options to achieve them, decision making and the ramifications of those decisions in the short and long term, and an implementation plan to make sure that business planning and strategies have the desired impact. An outside partner could also play the role of “Shadow CFO,” mentor, or coach.

- Managing both up and down to drive a process of options, forums, decision making and effective implementation. Interaction with program staff and a seat at the senior staff meetings are essential for this to be successful.
**All Services to All People of Minnesota, Inc.**  
**Balance Sheet**  
**December 31, 2009**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in checking</td>
<td>$65,570</td>
<td></td>
<td>$65,570</td>
</tr>
<tr>
<td>Savings</td>
<td>57,800</td>
<td>40,000</td>
<td>97,800</td>
</tr>
<tr>
<td>Investments</td>
<td>26,000</td>
<td></td>
<td>26,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>51,130</td>
<td></td>
<td>51,130</td>
</tr>
<tr>
<td>Gov’t Grants &amp; Contracts</td>
<td></td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Grants Receivable</td>
<td></td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Pledges Receivable</td>
<td></td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>Subtotal Current Assets</td>
<td>256,500</td>
<td>80,000</td>
<td>336,500</td>
</tr>
<tr>
<td>Prepaid Expense</td>
<td>2,200</td>
<td></td>
<td>2,200</td>
</tr>
<tr>
<td>Land</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>609,386</td>
<td></td>
<td>609,386</td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>177,300</td>
<td></td>
<td>177,300</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>39,110</td>
<td></td>
<td>39,110</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
<td>(181,590)</td>
<td>(181,590)</td>
</tr>
<tr>
<td>Subtotal Long Term Assets</td>
<td>676,406</td>
<td></td>
<td>676,406</td>
</tr>
<tr>
<td>Total assets</td>
<td>$932,906</td>
<td>80,000</td>
<td>1,012,906</td>
</tr>
</tbody>
</table>

| Liabilities                     |            |                        |            |
| Accounts payable                | $49,055     |                        | 49,055     |
| Payroll Taxes Payable           | 6,024       |                        | 6,024      |
| Deferred revenue                | 5,500       |                        | 5,500      |
| Accrued Vacation                | 26,720      |                        | 26,720     |
| Note (loan) Payable             | 80,000      |                        | 80,000     |
| Current Portion Long Term Debt  |            |                        |            |
| Subtotal Current Liabilities    | 197,203      |                        | 197,203    |
| Mortgage Loan Payable           | 482,662     |                        | 482,662    |
| Less: Current Portion           | (29,904)    |                        | (29,904)   |
| Subtotal Long Term Liabilities  |            |                        |            |
| Total liabilities               | 452,758      |                        | 452,758    |
| Net Assets                      |              |                        |            |

| Net Assets                     | Unrestricted | Temporarily Restricted | Total 2009 |
| Net Assets beginning of year   | 255,721      | 20,000                 | 275,721    |
| Change in Net Assets           | 27,224       | 60,000                 | 87,224     |
| Net Assets                     | 282,945      | 80,000                 | 362,945    |
| Total liabilities              |              |                        |            |
| Net assets                     | $282,945     | 80,000                 | 362,945    |

**Temporarily Restricted Assets:**  
Do we have assets obligated for use in a future period?

**Working Capital Ratio:**  
(Unrestricted Net Assets – Net Fixed Assets) / (Annual Cash Disbursements / 365)  
ASAPM: ($282,945 - ($20,000 + 609,386 + 177,300 + 39,110 - 181,590 - 482,662)) / ($878,325* / 365)  
= 42 Days Working Capital

**Days Cash on Hand:**  
Total Available Cash / (Annual Cash Disbursements / 365)  
ASAPM: ($65,570 + $57,800 + $26,000) / ($878,325* / 365)  
= 62 Days Cash

**Current Ratio:**  
Current Assets / Current Liabilities  
ASAPM: $256,500 / $197,203 = 1.3

**Debt to Equity Ratio:**  
Total Liabilities / Total Unrestricted Net Assets  
ASAPM: $649,961 / $282,945 = 2.3

**Change in Unrestricted Net Assets:**  
Also called net income, profit/loss, surplus/deficit  
ASAPM: $27,224 surplus

*Annual Cash Disbursements ($878,325) can be found using information from the Income Statement.
GUNNISON COUNCIL FOR THE ARTS

POLICY ON FINANCIAL PROCEDURES

Adopted by the Board in 4/08
Amended by the Board on 11/18/09
Amended by the Board on 8/29/12

The purpose of this document is to set forth the policies and procedures under which the finances of Gunnison Council for the Arts (GCA) will be managed. It is the intent of GCA, a public charity, to establish a financial management system that is simple, efficient, and meets the needs of the Internal Revenue Service, the State of Colorado, and any public or private funding source. Unless otherwise indicated, it is the responsibility of the Executive Director or his/her designee, to carry out these procedures. These financial procedures shall follow generally accepted accounting principles.

The Gunnison Council for the Arts (hereinafter referred to as GCA) also is licensed with the State of Colorado to do business as the “Gunnison Arts Center”. The financial policies and procedures of the GCA also are the financial policies and procedures of the Arts Center.

BUDGET

The fiscal year of GCA shall be from January 1 to December 31, as established in the GCA By-laws. The Executive Director, with input from the Finance Committee, shall prepare a draft annual budget for the following year, for review by the Board of Directors in September, and for final consideration by the Board of Directors in November. The budget will be prepared based on previous year’s actual costs and other pertinent information, and must be consistent with the goals of GCA’s strategic plan. Input from GCA’s committees and program councils will be used in budget preparation.

Beginning with the 2013 budget, GCA will establish a contingency line item of 5% percent of the total budget to cover the costs of unexpected items.

This budget will include a projection of operations/administrative and program expenditures by line item. Projected revenues shall be included in this budget. The Board of Directors will adopt the annual budget at its December meeting. While a budget is a guide and is not binding, it may only be modified during the year by a majority of the Board of Directors, in response to major changes in the internal or external environment.

Prior to each regularly scheduled meeting of the Board of Directors or Executive Committee, the Finance Committee, with the Executive Director, will review financial records and the budget and will provide to that body a report of financial status. At least quarterly, the Treasurer will
review the General Ledger. At least quarterly, the Treasurer will provide to the Board a balance sheet, profit and loss statement, and budget to actual statement.

**BANK DEPOSITORY & POLICIES**

1. Depository

   The Executive Director and the Finance Committee shall designate a primary financial institution as its depository of funds. Additional depositories may be designated as deemed appropriate.

   It is the policy of GCA to seek maximum investment potential with its funds. GCA has the authority to maintain money market accounts, checking accounts and other interest-bearing insured accounts consistent with its non-profit status and in the interest of the well-being of the organization. To insure maximum investment potential, the Executive Director, with the advice and consent of the Executive Committee, is authorized to transfer funds into interest bearing accounts that are FDIC insured. Withdrawals from investment accounts may be made by the Executive Director, with the advice and consent of the Executive Committee, in the form of transfers to the checking account or other interest bearing accounts.

2. Receipt of Funds

   Any funds received by GCA shall be deposited into the appropriate account in a timely fashion, generally within three working days of receipt. The staff will devise a system so that when cash is collected it can be counted/verified by more than one person. Checks received will be tracked by photocopy or scan of the check and will be recorded in the GCA's QuickBooks accounting system and reflected in financial reports to the Board of Directors.

   Thank you letters and tax receipts shall be created and sent within one week of the receipt of a gift/donation.

   Because the GCA has been designated by Region 10 Economic Development as a qualifying non-profit within an Enterprise Zone, funds donated to GCA for programs can provide tax credits, as well as tax deductions, to donors. Rules of the Enterprise Zone program specify that paperwork for such donations must be submitted to Region 10 no later than 3 months after the donation of $50+ (cash donations) or $100+ (in-kind donations). This paperwork is submitted to Region 10 by GCA’s bookkeeping firm. When Region 10 certifies donation, the bookkeeping firm provides the certification to GCA staff who in turn mails it to the donor.

3. Signatures

   Checks written on GCA accounts shall require the signature of the Executive Director, the Board President, first Vice-President or the Secretary of the Board. If GCA has hired a Deputy Director, that person may also be authorized to sign checks. All checks of $1,500 or more require two signatures from the above list.
The Executive Director may not sign checks to himself or herself even if they are less than $1,500. The Executive Director may, however, be one of the two signers of checks of $1,500 or more.

4. Wire Funds or Cashier’s Checks

If funds are to be wired or a cashier’s check requested, a money transfer form must be completed. This form will include who to call, where to transfer funds from, the general ledger number, where to transfer funds, how much to transfer, and the reason for the transfer of funds. The money transfer form will be signed by the Executive Director. The executive director is authorized to use on-line banking for transactions and transfers not to exceed $1,500.

CASH RESERVE, RESTRICTED ACCOUNTS, AND INVESTMENTS

1. Cash Reserve

GCA will attempt to maintain a cash reserve at or above $50,000. It is intended to be used only in the case of emergency. The Executive Committee and the Executive Director must jointly recommend to the board any withdrawal from this account and at least 2/3 of the board members present must approve the withdrawal in a board meeting at which a quorum is present. Authorization is for one withdrawal only and subsequent withdrawals must be requested in the same way.

Donors to the cash reserve fund may express their wishes about the use of their money. These wishes must be in writing. Donors should understand that their gift becomes the property of the GCA and is under the control of the GCA board. However, should they have wishes about the best use of their money, GCA will do its best to honor these wishes and keep donors informed.

2. Restricted Accounts

Donors may make a gift for restricted purposes, such as scholarships. In this case, the gift will be placed into a separate account, and can only be used for this purpose. Only with the donor’s explicit written permission may funds be used for another purpose. In the event that the original purpose is no longer relevant, GCA will discuss with the donor the best use of the funds. The final page of this document is a form to be completed by the donor of a restricted gift.

3. Investments

a. The cash reserve may be used to generate investment dollars and may be placed with a fund manager. In this case, the Finance Committee will review the investment allocation annually with the fund manager. The committee may investigate other managers and may recommend to the board that the funds be switched to the control of another manager.

b. The Gunnison Council for the Arts is the beneficiary of an endowment held at the Community Foundation of the Gunnison Valley. The fund was created with
$100,000 from two generous donors. The donors have specified that GCA cannot access distribution from this endowment until the principle has reached $175,000. It should be noted that these funds – a permanent endowment – are “owned” as well as managed by the Community Foundation.

CAPITAL ASSETS

1. Administration

The Executive Director is authorized to initiate, evaluate, and approve capital expenditures, insurance, leases, maintenance agreements, and purchase of service agreements (e.g. accounting, legal) for goods and services included in the approved annual budget up to $5,000. All transactions will be reported to the Board of Directors as part of the regular financial report.

Capital expenditures of $10,000 or more require prior Board approval. Expenditures included in the annual budget are considered approved by the full Board upon approval of the annual budget. When an expenditure is anticipated to exceed $10,000, the Executive Director is instructed to obtain at least two quotes prior to Board consideration. This paragraph does not supersede signatory provisions.

2. Fundraising

The Executive Director is authorized to initiate, evaluate, and approve fundraising expenditures for goods and services included in the approved annual budget up to $5,000. All transactions will be reported to the Board of Directors as part of the regular financial report. This paragraph does not supersede signatory provisions.

DISBURSEMENTS

1. General Procurement

Whenever feasible, GCA will seek to make purchases within its service area as a means of indicating its support to the local economy.

2. Staff/Board Expenses

GCA may reimburse its Board and staff for expenses incurred during the normal course of conducting business if reimbursements are in the budget.

All staff travel must be approved in advance by the Executive Director. A board member’s reimbursable travel expenses and any reimbursable travel expenses incurred by the Executive Director must be approved by the Treasurer if under $250 or by a board vote if $250 or more. If travel has been approved, mileage will be reimbursed at the allowable Internal Revenue Service rate. Meals will be reimbursed at a maximum rate of $35.00 per person, per day. Meals during which business was conducted or meals due to overnight travel will be considered allowable business expenses with receipt.
Lodging expenses, meal expenses, and miscellaneous charges for parking, taxi, etc., should be accompanied by a receipt marked with the correct General Ledger number. Expenses will be paid according to the regular check-cutting schedule using GCA’s expense form. All employee expense forms shall be reviewed and signed by the Executive Director prior to payment.

3. Payment of Vendors

The Executive Director, or his/her designee (“Business Designee”) is responsible for drafting checks and securing the necessary signatures. Generally, the Executive Director will be one of the signatories. Those checks needing second signatures will be signed by the signatories enumerated above.

All invoices shall be reviewed and initialed by the Executive Director prior to payment. All disbursements of GCA funds shall be made through the appropriate checking account. Signatory authority is referenced above.

All disbursements shall be documented by invoice indicating the purpose of the expenditure. A monthly report, showing all invoices paid in the previous two months, will be submitted to the Finance Committee and approved by the Board at their next meeting.

A vendor may choose to waive payment/donate a good or service. In this case, GCA will request an invoice, marked “donation” or “waived” for the GCA records of in-kind donations. In the event that the donor does not provide this documentation, staff will record the donation (if it is estimated to be more than $100) and note that the vendor is prepared to attest that it was a donation and affirm its value. Records of such in-kind donations will be kept.

4. Petty Cash

A fund of $125 shall be maintained as Petty Cash. Receipts are required for reimbursement. Payable receipts are attached to deposit slips. Petty cash shall be placed in a locked location at the close of business.

LOANS AND DEBTS

The Executive Committee may, in emergency circumstances, recommend to the Board of Directors that it is prudent to secure a loan or line of credit. Any loans of this nature must be repaid as promptly as possible, with payments made regularly. At least annually, the Executive Committee shall review the repayment process to ensure that loans are being repaid in a timely and prudent manner.

ACCOUNTING PROCEDURES

GCA shall operate using QuickBooks for accrual basis accounting. Only users authorized by the Executive Director have the ability to post entries to the accounting software. The Executive Director, with Board of Directors approval, may enter into a contract with a bookkeeping firm to manage GCA books.

1. General Ledger
Each account as listed in the Chart of Accounts will be found in this ledger. At the end of the fiscal year, the Business Designee will print out a final ledger for audit and retention purposes.

In the General Ledger is a listing of the date, check number, payee, and amount of each check written in chronological order by check number. Checkbook registers will be used for listing checks written on miscellaneous accounts. To obtain a list of all deposits and withdrawals for an account or general ledger number, a report from the fiscal system may be run. This report will show the cash balance as of the last posting date.

2. Cash Disbursements

In the General Ledger, disbursements will show each payee, date, source, and account to which the expense will be charged. Approved documentation is required for each check issued. A copy of the check written will be attached to the corresponding invoice. All invoices will be approved by the Executive Director.

3. Cash Receipts

Each cash receipt will show date received, payer, amount, and account or Fund to which it will be credited. A copy of all checks received should be kept to document the deposit. All checks received will be endorsed immediately with “For Deposit Only to the account of GCA” with the bank account number and the name of the bank on the endorsement.

4. Payroll System

The payroll system records the gross amount earned by each employee, the amount withheld for Federal, State, and FICA taxes, and the net amount paid to the employee. The Business Designee shall prepare appropriate 941 deposits, tax payments and quarterly reports.

5. Bank and Investment Reconciliations

At least quarterly, the banks statements and QuickBooks accounts are reconciled by the Business Designee, and reviewed by the Finance Committee.

Investment statements will be reconciled quarterly and reviewed by the Finance Committee.

6. Monthly Board Reports

Monthly, the Board of Directors shall review the following reports, presented by the Finance Committee:
- Profit and Loss statement
- Balance Sheet
- Budget to Actual statement
7. Depreciable Assets

Assets with a dollar value of $1000 or more at the time of purchase will be set aside as a depreciable asset. All expenditures less than $1000 will be considered an office expense for the current fiscal year.

AUDITS

1. Audit Committee

An Audit Committee shall be established by the GCA Board of Directors that is in compliance with Sarbanes-Oxley guidelines. No member of the staff or board with check-signing authority shall serve on the Audit Committee nor shall any member of the Executive Committee. The Audit Committee shall include at least two people, one of whom is a finance expert not on the Board.

2. Role of Committee

The roles of the Audit Committee are to (1) select and monitor the work of an Certified Public Accountant to complete an audit; (2) reinforce the board’s understanding of the role of the independent auditors and the nature and limitations of their work, and (3) the importance of accounting, financial and operating controls to the successful management of the organization. The Audit Committee shall be responsible for scheduling the audit and presenting the report to the Board of Directors. The Executive Director is responsible for forwarding the audit and IRS Form 990 to appropriate offices.

3. Frequency of Audit

The audit shall be undertaken every other year. Although not advisable, he Board may elect to conduct a financial review in lieu of an audit if circumstances warrant. The Board may elect to conduct a financial review in the off year if circumstances warrant.

RETENTION OF RECORDS

In accordance with Federal, State, and funding contract requirements, GCA shall retain appropriate financial records. A schedule of records to be retained, and when they may be discarded, in accordance with federal Sarbanes-Oxley law, will be found in the GCA Policy Book.

SECURITY OF FINANCIAL RECORDS

The GCA makes every effort to keep client financial information secure. No credit card information is kept for more than one week, and access to bookkeeping is accessible only to the Executive Director and the Business Manager, if any, or to the firm contracted to do GCA bookkeeping. The financial records of the GCA are kept in secured files.

TAXES AND FILINGS
1. Taxes

GCA shall pay all tax bills promptly.

2. Unrelated Business Income Tax

GCA may be liable for payment of Unrelated Business Income Tax (UBIT) when all or part of the Gunnison Arts Center is rented for activity outside the mission of the GCA.

Any and all business announcements placed in any GCA publication or displayed in the Gunnison Arts Center or around any GCA activity must acknowledge the GCA or the Gunnison Arts Center, and must conform to IRS guidelines. Any business announcement not conforming to the above criteria may be subject to UBIT.

Records will be kept of all income that may be liable for UBIT per policy found in the GCA Policy Book.

3. Property Tax

Generally, GCA is exempt from property tax. Records of any building use that is unrelated to the mission of the GCA shall be kept, including date, the space(s) used, the organization or individual using the space, length of usage, and the fee paid to the GCA for this usage. GCA requires all building users who rent or borrow space in GCA to complete a rental form; the facility use procedures and form include the size of each rentable space and the rental fee. These records will be retained per GCA document retention policy.

4. Filings

The Executive Director shall ensure that all filings that are required by the Federal Government such as the IRS Form 990, by the State Government such as the Charitable Solicitation filing, and any local filings and final reports to granting agencies are submitted promptly and accurately.

GIFT ACCEPTANCE POLICY

Gifts of money, real estate, art or other goods shall be accepted per the Gift Acceptance Policy found in the GCA Policy Book.

FISCAL AGENCY

The Board of Directors of GCA may consider serving as the fiscal agent for artists and arts organizations who may be seeking grant funding. GCA recognizes that, in such a case, GCA is accountable for the grant, including bookkeeping, fund monitoring and final reporting. In the event that GCA enters into such a relationship with an artist or arts organization, the written memo of understanding, signed by both parties, shall specify each party’s responsibilities and expectations, and shall include the conditions under which the relationship is terminated.
TRANSPARENCY

It is the GCA’s intent that all members of the Board of Directors and the staff shall be aware of all policies related to finances and the handling of finances. Policies shall be updated as necessary by action of the Board of Directors upon recommendation of the staff and Finance Committee.

The Annual Report, the list of Board of Directors, the current strategic plan, the most recent audit and the 990 are posted on the GCA website.
GUNNISON COUNCIL FOR THE ARTS

RESTRICTED FUNDS STATEMENT OF UNDERSTANDING

The Gunnison Council for the Arts has received $______________ from ___________________________________. The donor(s) has requested that these funds be named the ____________________ for the benefit of GCA. Distributions from the endowment will be used to ____ (state purpose – describe in detail).

ADMINISTRATION

These funds and all future additions, made by all interested parties, shall be subject to the provisions of this instrument. If in the opinion of the Gunnison Council for the Arts Board of Directors, future circumstances change so that the purposes for which the endowment is established become illegal, impracticable, or no longer able to be carried out to meet the needs of The GCA, said Board of Directors may designate an alternative use for the endowment payout to further the objective of The GCA in the spirit of its original purpose.

INVESTMENT, PAYOUT AND REINVESTMENT

These funds may be merged or commingled with other funds held by the Board of Directors of the Gunnison Council for the Arts for investment purposes in accordance with the endowment policies of the GCA. Funds distributed from the endowment in a year may be retained and expended for the purposes of the endowment in subsequent years, or may be reinvested, at the discretion of the Board of Directors of the Gunnison Council for the Arts as a permanent addition to the principal of this quasi endowment.

ACCEPTED ON BEHALF OF THE GUNNISON COUNCIL FOR THE ARTS BOARD OF DIRECTORS BY:

____________________________________________  ______________________________
Board Member Signature                          Date

____________________________________________  ______________________________
Printed Name and Title

ACKNOWLEDGED BY THE DONOR:

____________________________________________  ______________________________
Donor Signature                                Date

____________________________________________
Printed Name
Nonprofits have an obligation to act as responsible stewards of their financial resources. Nonprofits must comply with all legal financial requirements and should adhere to sound accounting principles that produce reliable financial information, ensure fiscal responsibility, and build public trust. Nonprofits should use their financial resources to accomplish their missions in an effective and efficient manner, and should establish clear policies and practices to regularly monitor how funds are used. Adherence to best practices, especially for those nonprofits that do not receive an annual audit or financial review, is critical to maintaining compliance and public trust.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>No/ Not Begun</th>
<th>Somewhat/ In Process</th>
<th>Yes/ Completed</th>
<th>Not Applicable</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. We produce consistent and accurate financial reports at least quarterly.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our income and expense reports compare the budget for the same period to the actual income and expenses and we include explanations for significant variances.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Our board members receive appropriate training on how to read and understand nonprofit financial statements.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our board members are actively engaged in reviewing financial statements and providing fiscal oversight.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. We have devised and implemented internal control procedures that are appropriate for our organizations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. We comply with all financial reporting and tax laws, including withholding and payment of federal and state income taxes and Social Security payroll taxes.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. We have our chief executive officer, chief financial officer (or equivalent), board, and audit committee (if applicable) thoroughly review and approve the IRS Form 990 and 990-T (if applicable) to ensure that they are accurate, complete, and filed on time.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Our nonprofit has a qualified independent CPA conduct an audit or review of our financial statements annually or in a manner appropriate to our organization's size and scale of operations.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Required by law</td>
<td>No/ Not Begun</td>
<td>Somewhat/ In Process</td>
<td>Yes/ Completed</td>
<td>Not Applicable</td>
<td>Not Sure</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>---------------</td>
<td>----------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>----------</td>
</tr>
<tr>
<td>In the process of the audit, the auditor is given the opportunity to meet in executive session with our board separately from management and staff.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>The independent financial audit or review is reviewed and approved by our board.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>7. Our board has designated an audit committee to hire the auditor, oversee and evaluate the audit process, meet with the auditor to review the audit's content, and present the audit to the full board for its review and approval.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>8. Our audit committee (or board) evaluates the quality of our audit firm and periodically puts the audit out to bid.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>When maintaining the same firm, our nonprofit requests a new audit partner every three to five years in order to ensure a fresh, objective perspective.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**Policies**

<p>| 9. ➤ We openly communicate the annual reporting information contained on our Form 990 to our constituents and others who request such information. | ☐             | ☐                    | ☐              | ☐              | ☐        |
|IRC § 6104: 990                                                                                           |               |                      |                |                |          |
| We share, at least annually, an overview of data regarding sources of revenue, functional expenditures, and related outcomes (usually in the form of an annual report). | ☐             | ☐                    | ☐              | ☐              | ☐        |
| 10. We ensure that our assets are used solely for the benefit of the organization, and not for personal or other gains. | ☐             | ☐                    | ☐              | ☐              | ☐        |
| We have a policy regarding the personal use of assets such as computers, phones, copy machines, etc. | ☐             | ☐                    | ☐              | ☐              | ☐        |
| 11. ➤ We have a system in place that allows individuals to report financial and other misconduct and must ensure that there is no consequence for doing so — commonly referred to as a &quot;whistleblower policy&quot;. | ☐             | ☐                    | ☐              | ☐              | ☐        |
| 18 USC § 1107 – a.k.a. Sarbanes-Oxley: 990                                                                 |               |                      |                |                |          |
| 12. ➤ We manage and invest funds prudently and are in compliance with conditions attached to funding. | ☐             | ☐                    | ☐              | ☐              | ☐        |
| CRS § 15-1-1103-1109, 990                                                                                   |               |                      |                |                |          |
| ➤ We have adopted a sound investment policy, which is reviewed periodically. | ☐             | ☐                    | ☐              | ☐              | ☐        |
| CRS § 15-1-1103-1109, 990                                                                                   |               |                      |                |                |          |</p>
<table>
<thead>
<tr>
<th>Required by law</th>
<th>No/ Not Begun</th>
<th>Somewhat/ In Process</th>
<th>Yes/ Completed</th>
<th>Not Applicable</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. We have policies that provide clear guidance on our rules for paying or</td>
<td>☑</td>
<td>☑</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>reimbursing expenses incurred by anyone conducting business on behalf of the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organization. The policy specifies the types of expenses that can be</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reimbursed, the approval and review process of expense reports, and the</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>documentation required to substantiate expenses.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our expense reimbursement policy requires that travel and other expenditures</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>on behalf of the organization are undertaken in a cost-effective manner.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. We neither pay for nor reimburse travel expenditures (other than minor</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>and incidental expenses such as refreshments served at an organization meeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for spouses, dependents, or others who are accompanying individuals conducting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>business for the organization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. We do not make any loans to board members or officers.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>CRS § 7-128-50; 990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We expressly prohibit loans to key personnel.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. We do not allow personal use of organizational funds or business credit</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>cards and are aware that any such transaction may constitute private</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>inurement or an excess benefit transaction under the intermediate sanctions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>rules. IRC § 501(c)(3) and 4958; CRS § 7-133-10; 990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. We have a policy that provides clear guidance on the appropriate use of</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>business credit cards that provides consequences for unsubstantiated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenses and personal use of credit cards. 990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our credit card policy specifies oversight procedures including board</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>oversight of the chief executive officer's credit card expenditures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>990</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Responsibilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18. Our board reviews and approves the annual budget for the organization.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Our board considers applicable industry benchmarks for expenditures on</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>programs, administration and fundraising.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial Management
Page 3 of 4
<table>
<thead>
<tr>
<th>No/ Not Begun</th>
<th>Somewhat/ In Process</th>
<th>Yes/ Completed</th>
<th>Not Applicable</th>
<th>Not Sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>19. We work towards diversifying our funding sources as much as possible in an effort to strengthen the organization’s sustainability and public support ratio, and to lessen the impact of a potential loss of a significant amount of its funding from any one source.</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
| 20. We comply with specific conditions placed upon donations.  
*CRS § 15-1-1103-1109, CRS § 6-16-1111(1); 990* | ☐ | ☐ | ☐ | ☐ | ☐ |
| 21. We clearly categorize our donated funds as unrestricted, temporarily restricted or permanently restricted in our financial statements and communications in accordance with the donor or grantor wishes/stipulations.  
*CRS § 15-1-1103-1109, CRS § 6-16-1111(1); 990* | ☐ | ☐ | ☐ | ☐ | ☐ |
| 22. We qualify as a public charity either under the “public support test” or the “facts and circumstances test”.  
*IRC § 170(b)(1)(A)(vi) and 501(c)(3); 990* | ☐ | ☐ | ☐ | ☐ | ☐ |
| 23. We have planned, established, and maintained a financial reserve at a level determined by the organization’s management and board to adequately support its operations (typically three to six months of operating expenses).  
We have a reserve policy that identifies our target range and when the reserves may be used. | ☐ | ☐ | ☐ | ☐ | ☐ |
| 24. We project, monitor, and make adjustments to cash flow as needed to ensure appropriate cash flow. | ☐ | ☐ | ☐ | ☐ | ☐ |
Principles
Nonprofits have an obligation to act as responsible stewards of their financial resources. **Nonprofits must comply with all legal financial requirements and should adhere to sound accounting principles that produce reliable financial information, ensure fiscal responsibility, and build public trust.** Nonprofits should use their financial resources to accomplish their missions in an effective and efficient manner, and should establish clear policies and practices to regularly monitor how funds are used. Adherence to best practices, especially for those nonprofits that do not receive an annual audit or financial review, is critical to maintaining compliance and public trust.

Practices
Functions
1. **Financial Reports** – A nonprofit organization should produce consistent and accurate financial reports at least quarterly. The income and expense reports should also compare the budget for the same period to the actual income and expenses, along with explanations for significant variances.

2. **Board Review of Financial Statements** – All board members should receive appropriate training on how to read and understand nonprofit financial statements. Board members should be actively engaged in reviewing financial statements and providing fiscal oversight.

3. **Internal Controls** – A nonprofit should devise and implement internal control procedures in order to ensure accurate information and to help prevent fraud.

Compliance
4. **Compliance** – A nonprofit organization must comply with all financial reporting and tax laws, including withholding and payment of federal and state income taxes and Social Security payroll taxes.

5. **Review of IRS Information Returns** – A nonprofit’s chief executive officer, chief financial officer (or equivalent), board, and audit committee should thoroughly review and approve the IRS Form 990 and 990-T (if applicable) to ensure that the organization’s filings are accurate, complete, and filed on time with the IRS (990).

6. **Audits** – A nonprofit organization should have a qualified independent Certified Public Accountant audit or review the financial statements annually or in a manner appropriate to the organization’s size and scale of operations. In the process of the audit, the auditor should be given the opportunity to meet in executive session with the organization’s board separately from management and staff. The independent financial audit or review should be reviewed and approved by the board of directors.

7. **Audit Committee** – The board should designate an audit committee to hire the auditor, oversee and evaluate the audit process, meet with the auditor to review the audit’s content, and present the audit to the full board for its review and approval. It is permissible to have a combined finance and audit committee. If possible, an audit committee should be independent of the finance committee because the auditors are effectively assessing the performance of the finance committee (990).

8. **Audit Rotation** – The audit committee should evaluate the quality of the audit firm and periodically put the audit out to bid. If maintaining the same firm, a nonprofit should consider requesting, if possible, a new audit partner every three to five years in order to ensure a fresh, objective perspective.

Policies
9. **Open Communication** – A nonprofit organization must openly communicate the annual reporting information contained on its Form 990 to constituents and others who request such information (IRC § 6104; 990). In addition, nonprofits should share, at least annually, an overview of data regarding sources of revenue, functional expenditures, and related outcomes.

10. **Protection of Assets** – A nonprofit organization has a responsibility to ensure that its assets are used solely for the benefit of the organization, and not for personal or other gains. A nonprofit should establish a policy regarding the personal use of assets such as computers, phones, copy machines, etc.

11. **Whistleblower Policy** – A nonprofit organization should have a system in place that allows individuals to report financial and other misconduct, and must ensure that there is no consequence for doing so — commonly referred to as a “whistleblower policy” (18 USC § 1107 – a.k.a. Sarbanes-Oxley; 990).

12. **Management of Funds** – A nonprofit organization must manage and invest funds prudently and in compliance with conditions attached to funding (CRS § 15-1-1103–1109; 950). A nonprofit should adopt and periodically review a sound investment policy.
13. Expense Reimbursement — A nonprofit organization should establish and implement policies that provide clear guidance on its rules for paying or reimbursing expenses incurred by anyone conducting business on behalf of the organization. The policy should specify the types of expenses that can be reimbursed, the approval and review process of expense reports, and the documentation required to substantiate expenses. Such policies should require that travel and other expenditures on behalf of the organization be undertaken in a cost-effective manner.

14. Related Persons Expense Reimbursement — A nonprofit organization should neither pay for nor reimburse travel expenditures (other than minor and incidental expenses such as refreshments served at an organization meeting) for spouses, dependents, or others who are accompanying individuals conducting business for the organization unless there is a business purpose for their attendance and participation. If, however, expenses without a business purpose are reimbursed, the person in receipt of the reimbursement must treat it as compensation.

15. Loans to Board Members and Key Personnel — A nonprofit must not make any loans to board members or officers (CRS § 7-128-501). It should also expressly prohibit loans to key personnel (990).

16. Personal Use of Nonprofit Funds — A nonprofit must not allow personal use of its funds or business credit cards because any such transaction may constitute private inurement or an excess benefit transaction under the intermediate sanctions rules (IRC § 501(c)(3) and 4958; CRS § 7-133-101; 990).

17. Credit Card Use — A nonprofit should establish and implement a policy that provides clear guidance on the appropriate use of business credit cards. The policy should also provide consequences for unsubstantiated expenses and personal use of credit cards. The policy should specify oversight procedures including board oversight of the chief executive officer’s credit card expenditures (990).

Financial Responsibilities

18. Annual Budget — The board of directors should review and approve an annual budget for the organization. While the board should determine the appropriate budget needed to achieve its mission, the board should also consider applicable industry benchmarks for expenditures on programs, administration, and fundraising.

19. Revenue — A nonprofit should work toward diversifying its funding sources as much as possible in an effort to strengthen the organization’s sustainability and public support ratio, and to lessen the impact of a potential loss of a significant amount of its funding from any one source. Funding sources could include grants and contributions, earned income, and unrelated business income.

20. Donor Restrictions — A nonprofit must comply with specific conditions placed upon donations (CRS § 15-1-1103-1109; CRS § 6-16-111(1)(i)). Donated funds must be clearly categorized as unrestricted, temporarily restricted or permanently restricted in the organization’s financial statements and communications in accordance with the donor or grantor wishes/stipulations (990).

21. Public Support Test — To be considered a public charity, an organization must generally receive financial support from a sufficiently broad base of donors to meet the public support test or the facts and circumstances test. A public charity that normally receives more than one-third of its total support from “public support” sources is generally considered a public charity. If the organization fails the public support test, it may still qualify under the facts and circumstances test (IRC § 170(b)(1)(A)(VI) and 509(a)(1)).

22. Expenses — A nonprofit organization should spend a high percentage of its annual budget on programs in pursuance of its mission. A nonprofit should consult industry and subsector standards to determine an appropriate range for administration and fundraising ratios. An organization should also provide sufficient resources for effective administration of the organization and, if the organization solicits contributions, for appropriate fundraising activities.

23. Reserves — A nonprofit should plan, establish, and maintain a financial reserve at a level determined by the organization’s management and board to adequately support its operations. A recommended target for reserves is three to six months of operating expenses. Organizations with capital property should also consider an appropriate capital reserve policy.

24. Cash Flow — In order to facilitate smooth fiscal operations, a nonprofit should project, monitor, and make adjustments to cash flow as needed to ensure appropriate cash flow.
Links to Documents
Suggested by Cathryn Saylor Peterson in “Great Financial Management”

Conflict of Interest policy

- The IRS sets forth the requirements for such a policy, and offers a sample policy, here: http://www.irs.gov/pub/irs-tege/eotopice00.pdf
- Sample Conflict of Interest policy, Minnesota Attorney General: http://www.ag.state.mn.us/pdf/charities/ConflictInterestPolicy.pdf

“Expensify” – “expense reporting built for employees, loved by administrators” - https://www.expensify.com/