



Glossary of Terms

Course 4 - Module 3: Fiscal Policies and Procedures

Conflict of Interest: A situation in which a person is in a position to derive personal benefit (financial or professional) from actions or decisions made in their official capacity.

Duty of Loyalty: Ethical and legal responsibilities, e.g., avoiding conflicts of interest, putting aside personal and professional interests.

Expense Reimbursement Policy: A method for paying employees/or board members back when they spend their own money on business-related expenses. These expenses include travel, hospitality, and small business-related purchases.

Gift Acceptance Policy: Can be used to describe which gifts the organization accepts and whether any approval is required. It also prevents the acceptance of gifts that will cost the nonprofit organization time, money, and possibly its reputation, by reminding the organization when to say, "No."

IT Security Policy: Identifies the rules and procedures for all individuals accessing and using an organization's IT assets and resources.

Reserve Policy: Reserves, or Operating Reserves, is an unrestricted fund balance set aside to stabilize a nonprofit's finances by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses. Operational reserves are a safety net for both unforeseen circumstances and promising opportunities that turn up unexpectedly. Just as for individuals it is risky to live from paycheck to paycheck, it is risky for organizations to have no savings.

Retention and Destruction: Ensure that the organization retains valuable documents, saves money, time and space, protect the organization against allegations of selective document destruction, and provide for routine destruction of non-business, superfluous, and outdated documents. Documents that should be retained and the period of retention should be 5-7 years. After the retention period has run, there should be a deliberate consideration to the type of information that should be retained or destroyed. Consider methods of destruction of that data so that when it is appropriate to dispose of the data or documents, the correct method may be implemented.

Whistleblower Policy: Encourages board members, staff, and volunteers to come forward with credible information on illegal practices or violations of the organization's adopted policies. The policy should specify that the organization will protect the individual from retaliation and identify staff, board members, and outside parties to whom such information could be reported.



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Sample Conflict of Interest Form

Name: _____

Position: _____

I have been informed and I agree to bring to the attention of the proper level of authority any real or perceived conflicts of interest that may arise during the course of my tenure with the organization.

Such conflicts include, but are not limited to, personal affiliations, professional affiliations, business dealings, dealings with other boards, and so forth.

Additionally, I agree to abide by the direction and decision rendered by the organization.

Signature: _____

Date: _____



SAMPLE CONFLICT OF INTEREST POLICY – 2018 New or Small Organizations with No Affiliates

This policy is intended for **new or small charitable organizations that do not have affiliates**. It is designed to be easy to use. Although it complies with the New York Not-for-Profit Corporation Law (N-PCL), it does not contain all of the detail that appears in some policies. There are many alternatives to the approach taken here – organizations should think through the kinds of conflicts of concern to them and consider appropriate changes. Because the N-PCL is complex, organizations should consult with their lawyers before making changes.

This sample is being circulated for general guidance only and is not intended to provide, and should not be relied upon as, legal advice.

Conflict of Interest and Compensation Policy of [your organization] ("the Corporation")

Adopted by the Board of Directors on [Date]

I. Overview

1. Purpose

The purpose of this Conflict of Interest and Compensation Policy (the "policy") is to protect the Corporation's interests when it is considering taking an action or entering into a transaction that might benefit the private interests of a director, officer or **key person**¹, result in the payment of excessive compensation to a director, officer or key person; or otherwise violate state and federal laws governing conflicts of interest applicable to nonprofit, charitable organizations.

2. Why is a policy necessary?

As a nonprofit, charitable organization, the Corporation is accountable to both government agencies and members of the public for responsible and proper use of its resources. Directors, officers and employees have a duty to act in the Corporation's best interests and may not use their positions for their own financial or personal benefit.

Conflicts of interest must be taken very seriously since they can damage the Corporation's reputation and expose both the Corporation and affiliated individuals to legal liability if not handled appropriately. Even the appearance of a conflict of interest should be avoided, as it could undermine public support for the Corporation.

¹ **Key person** means a person, other than a director or officer, whether or not an employee of the Corporation, who:

- a) has responsibilities, or exercises powers or influence over the Corporation as a whole similar to the responsibilities, powers, or influence of directors and officers;
- b) manages the Corporation, or a segment of the Corporation that represents a substantial portion of the activities, assets, income, or expenses of the Corporation; or
- c) alone or with others controls or determines a substantial portion of the Corporation's capital expenditures or operating budget.

3. To whom does the policy apply?

This policy applies to all directors, officers and key persons (“you”)².

II. Identifying Conflicts of Interest

1. What is a conflict of interest?

A potential conflict of interest arises when a director, officer or key person, or that person’s **relative**³ or business (a) stands to gain a financial benefit from an action the Corporation takes or a transaction into which the Corporation enters; or (b) has another interest that impairs, or could be seen to impair, the independence or objectivity of the director, officer or key person in discharging their duties to the Corporation.

2. What are some examples of potential conflicts of interest?

It is impossible to list all the possible circumstances that could present conflicts of interest. Potential conflicts of interest include situations in which a director, officer or key person or that person’s relative or business:

- has an ownership or investment interest in any third party that the Corporation deals with or is considering dealing with;
- serves on the board of, participates in the management of, or is otherwise employed by or volunteers with any third party that the Corporation deals with or is considering dealing with;
- receives or may receive compensation or other benefits in connection with a transaction into which the Corporation enters;
- receives or may receive personal gifts or loans from third parties dealing with the Corporation;
- serves on the board of directors of another nonprofit organization that is competing with the Corporation for a grant or contract;
- has a close personal or business relationship with a participant in a transaction being considered by the Corporation;
- would like to pursue a transaction being considered by the Corporation for their personal benefit.

3. In situations where you are uncertain, err on the side of caution and disclose the potential conflict as set forth in Section III of this policy.

² Organizations may choose to make the policy applicable to all of their employees, not just key persons.

³ **Relative** means a person’s spouse or domestic partner, ancestors, brothers and sisters (whether whole or half-blood), children (whether natural or adopted), grandchildren, great-grandchildren, and spouses or domestic partners of brothers, sisters, children, grandchildren and great-grandchildren.
Nonprofit Coordinating Committee of New York, 2018.

4. **A potential conflict is not necessarily a conflict of interest.** A person has a conflict of interest only if the audit committee decides, pursuant to Section IV of this policy, that a conflict of interest exists.⁴

III. Disclosing Potential Conflicts of Interest

1. You must disclose to the best of your knowledge all potential conflicts of interest as soon as you become aware of them and always before any actions involving the potential conflict are taken. Submit a signed, written statement disclosing all the material facts to the audit committee.
2. You must file an annual disclosure statement in the form attached to this policy. **If you are a director**, you must also file this statement prior to your initial election. Submit the form to the chair of the audit committee.

IV. Determining Whether a Conflict of Interest Exists⁵

1. After there has been disclosure of a potential conflict and after gathering any relevant information from the concerned director, officer or key person, the audit committee shall determine whether there is a conflict of interest. The director, officer or key person shall not be present for deliberation or vote on the matter and must not attempt to influence improperly the determination of whether a conflict of interest exists.
2. In determining whether a conflict of interest exists, the audit committee shall consider whether the potential conflict of interest would cause a transaction entered into by the Corporation to raise questions of bias, inappropriate use of the Corporation's assets, or any other impropriety.
3. A conflict always exists in the case of a **related party transaction** – a transaction, agreement or other arrangement in which a **related party**⁶ has a financial interest and in which the Corporation or any affiliate of the Corporation is a participant.⁷

⁴ Alternatively, the policy could provide for disclosure (1) to the board of directors, in which case, the board would decide both whether there is a conflict and how to handle the conflict; or (2) to a different board committee.

⁵ Alternatively, the policy could provide for disclosure (1) to the board of directors, in which case, the board would decide both whether there is a conflict and how to handle the conflict; or (2) to a different board committee.

⁶ A **related party** is:

1. a director, officer or key person of the Corporation or any affiliate of the Corporation, or
2. a relative of any individual described in (1), or
3. an entity in which any individual described in (1) or (2) has an ownership or beneficial interest of 35% or more, or in the case of a partnership or professional Corporation, a direct or indirect ownership interest in excess of 5%.

⁷ A transaction is not a related party transaction if:

1. the transaction, or the related party's financial interest in the transaction, is *de minimis*;
Nonprofit Coordinating Committee of New York, 2018.

4. If the audit committee determines that there is a conflict of interest, it shall refer the matter to the board of directors ("board").

V. Procedures for Addressing a Conflict of Interest

1. When a matter involving a conflict of interest comes before the board, the board may seek information from the director, officer or key person with the conflict prior to beginning deliberation and reaching a decision on the matter. However, a conflicted person shall not be present during the discussion or vote on the matter and must not attempt to influence improperly the deliberation or vote.
2. **Additional Procedures for Addressing Related Party Transactions**
 - a. The Corporation may not enter into a related party transaction unless, after good faith disclosure of the material facts by the director, officer or key person, the board or a committee authorized by the board determines that the transaction is fair, reasonable and in the Corporation's best interest at the time of such determination.
 - b. If the related party has a substantial financial interest, the board or authorized committee shall:
 - i. prior to entering into the transaction, consider alternative transactions to the extent available;
 - ii. approve the transaction by a vote of not less than a majority of the directors present at the meeting; and
 - iii. contemporaneously document in writing the basis for its approval, including its consideration of any alternative transactions.

VI. Minutes and Documentation

The minutes of any board meeting at which a matter involving a conflict of interest or potential conflict of interest was discussed or voted upon shall include:

- a. the name of the interested party and the nature of the interest;
 - b. the decision as to whether the interest presented a conflict of interest;
-
2. the transaction would not customarily be reviewed by the board or the boards of similar organizations in the ordinary course of business and is available to others on the same or similar terms;
 3. the transaction constitutes a benefit provided to a related party solely as a member of a class of the beneficiaries that the Corporation intends to benefit as part of the accomplishment of its mission (and that benefit is available to all similarly situated members of the same class on the same terms).

Nonprofit Coordinating Committee of New York, 2018.

- c. any alternatives to a proposed contract or transaction considered by the board; and
- d. if the transaction was approved, the basis for the approval.

VII. Prohibited Acts

The Corporation shall not make a loan to any director or officer.

VIII. Procedures for Determining Compensation

1. No person shall be present for or participate in board or committee discussion or vote pertaining to:
 - a. their own compensation;
 - b. the compensation of their relative;
 - c. the compensation of any person who is in a position to direct or control them in an employment relationship;
 - d. the compensation of any person who is in a position to directly affect their financial interests; or
 - e. any other compensation decision from which the person stands to benefit.
2. In the case of compensation of Key Persons, the following additional procedures apply:
 - a. The board or a committee authorized by the board shall approve compensation before it is paid.
 - b. The board or authorized committee shall base approval of compensation on appropriate data, including compensation paid by comparable organizations (three are sufficient if the Corporation's income is less than \$1,000,000) for functionally similar positions, availability of similar services in the geographic area of the Corporation, and compensation surveys compiled by independent firms.
 - c. The board or authorized committee shall contemporaneously document:
 - i. the terms of compensation and date of determination;
 - ii. the members of the board or committee who were present and those who voted for it;
 - iii. the comparability data relied on and how it was obtained;
 - iv. if the compensation is higher or lower than the range of comparable data, the basis for the determination, and;
 - v. any actions with respect to consideration of the compensation by anyone on the board or committee who had a conflict of interest with respect to the matter.

Nonprofit Coordinating Committee of New York, 2018.

[Your organization]

Conflict of Interest Disclosure Statement

By signing below, I affirm that:

1. I have received and read a copy of the Conflict of Interest and Compensation Policy;
2. I agree to comply with the policy;
3. I have no actual or potential conflicts as defined by the policy or if I have, I have previously disclosed them as required by the policy or am disclosing them below.

Disclose here, to the best of your knowledge:

1. any entity in which you participate (as a director, officer, employee, owner, or member) with which the Corporation has a relationship;
2. any transaction in which the Corporation is a participant as to which you might have a conflicting interest; and
3. any other situation which may pose a conflict of interest.

Name:

Position:

Signature:

Date:

Nonprofit Coordinating Committee of New York, 2018.



Nonprofit Operating Reserves and Policy Examples

A nonprofit may set aside a cash reserve to provide a cushion for planned or unplanned future needs. This resource includes considerations for reserve planning and two sample policies.

Operating Reserves

An operating reserve is an unrestricted fund balance set aside to stabilize a nonprofit's finances by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses. The most common trigger for use of operating reserves is on the income side, such as when a previously reliable source is reduced or withdrawn. Since operating reserves are most valuable if they are reliable, an important factor in using reserves is also having a realistic plan to replenish them. Operating reserves should not be used to cover a long-term or permanent income shortfall. Reserves can allow an organization to weather serious bumps in the road by buying time to implement new strategies. To be prudent, reserves should be used to solve temporary problems, not structural financial problems. In the worst case scenario, reserves can be used for an orderly shutdown of the organization.

Operating reserves may be a part of the organization's unrestricted cash or working capital. Every nonprofit needs to have sufficient cash flow coming in from various income sources and going out to pay expenses and other obligations when they are due. Some organizations create reserves by setting aside cash in addition to the regular bank fund balances for use when regular cash flow is disrupted.

Reserves are also different from restricted funds. Restricted funds are grants and contributions that have been received for specific programs or projects. These funds are "restricted" for use according to the grant agreement or donor's instructions.

Sometimes this means that restricted funds sit idle in the bank for a while and the nonprofit cannot use those funds for some other purpose.

Reserves, on the other hand, are "unrestricted" funds that can be used in any way that the nonprofit's management and board chooses.

Where do Reserves Come From?

Occasionally, a nonprofit will receive a grant or contribution to create or add to an operating reserve fund. Usually, though, reserves are built up over time by generating an unrestricted surplus and intentionally designating a portion of the excess cash as a reserve fund. Some organizations include a line item in the budget to add to reserves.

How Much Should We Have?

While there are general guidelines for setting operating reserve goals, they should always be accompanied by "it depends." Most standards are based on a formula to have enough unrestricted cash to cover operating expenses for a number of months. A commonly used reserve goal is three to six months' expenses. At the high end, reserves should not exceed the amount of two years' budget. At the low end, reserves should be enough to cover at least one full payroll including taxes. Keep in mind that generic target amounts for reserves don't take some important variables into account, such as the stability of the nonprofit's cash receipts.

Organizations that have contracts or fees with regular and reliable payments don't need as much in reserves as organizations that rely on periodic grants, fund- raising events or campaigns, or seasonal activities. Factor in these considerations when setting an operating reserve target. The goal for operating reserves will change, too, when income or expenses become less reliable or predictable because of internal or external changes.

Why Policies Matter

To be a viable operating reserve, there should be a board agreement and policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves, and outline requirements for reporting and monitoring. Without a policy and procedure, reserve funds tend to be gradually spent down over time and then are not available the next time the funds are really needed. When developing the policy, be sure to allow for some flexibility and ease of access.

Reserves are there to help the organization operate programs and services, not to create an untouch- able bank balance to admire. Two examples of policies are included at the end of this article.

Other Kinds of Reserves

This discussion has been focused on operating reserves designated to manage cash flow or short- term cash shortfalls and unexpected expenses.

There are other kinds of reserve funds that can be established to build up cash balances for specific purposes such as building repair and replacement reserves, program reserves to support program continuation if income is uncertain, and opportunity reserves to allow the nonprofit to provide seed funding for a new idea or innovation. Each type of reserve needs the same kind of planning and policy as described for operating reserves.

Developing an Operating Reserve Policy Developing and adopting a written policy regarding a nonprofit's operating reserves is a valuable practice for any organization. The policy may be contained within the financial policies or may stand alone. Having a written and approved policy on operating reserves will help to ensure that the board of directors and staff leadership use consistent definitions and calculations and that the authority and operational guidelines for using funds in re- serve are clear to all. In the absence of an adopted policy, staff and board members may have different assumptions that may or not be accurate or productive. If the idea of creating an operating reserve policy seems daunting, this basic example and guideline for policy development can be helpful.

Five Essentials for Policies

The intent of the operating reserve policy is to de- scribe and document the purpose, goals, and mechanics for maintaining and using operating reserve funds. In order to accomplish this, the operating reserve policy needs to address five areas:

1. Purpose of building and maintaining reserves
2. Definitions of the types of reserves, intended use, and calculation of target amounts
3. Assignment of authority for making use of each type of reserve fund, which may include delegation of some authority to staff leaders

4. Responsibilities for reporting reserve fund amounts and use of reserve funds
5. Any specific policies, if needed, about investment of reserve funds

Developing and Approving a Policy

This article includes two examples of reserve policies. The first is for operating reserves only and will be useful for nonprofits with a single cash reserve that is primarily used for occasional unexpected shortfalls. The second policy example expands to include other types of reserves, such as building reserves. This example requires more discussion and customization for the nonprofit's particular situation and plans. Both of the example policies include a variety of components that may or may not fit the needs of any individual nonprofit organization. These examples are a starting point intended to help you address the essential questions and decisions. Some nonprofits develop more comprehensive and detailed policies that incorporate more specific responsibilities and add much more detail. The most important action is to create and adopt a policy that meets your organization's needs.

Considerations When You Start with a Policy Template

We offer these example reserve policies to get you started, but keep in mind that no example will be an exact fit for your organization. Never adopt a policy without a thorough review and consideration of the risks, operations, and structure of the organization. In the example policies included here, some areas require customization. Bold, bracketed text should be customized to meet your needs. We have included some options to assist you. Be sure to review these parts carefully to create the right policy for your organization. Visit propelnonprofits.org to download these example policies as a Word document.

Sample Reserve Policy: Operating Reserve

Purpose

The purpose of the Operating Reserve Policy for [NAME] is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of [NAME] for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of [NAME] and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

Definitions and Goals

The Operating Reserve Fund is defined as a designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Operating Reserve Fund is equal to **[one/two/three/six]** months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses **[CUSTOMIZE: examples are pass-through programs, one-time or unusual, capital purchases]**. The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee/Board of Directors, and included in the regular financial reports.

Accounting for Reserves

The Operating Reserve Fund will be recorded in the financial records as Board-Designated Operating Reserve. The Fund will be funded and available in cash or cash equivalent funds. Operating Reserves **[CUSTOMIZE: will be maintained in a segregated bank account or investment fund, in accordance with investment policies OR will be commingled with the general cash and investment accounts of the organization]**.

Funding of Reserves

The Operating Reserve Fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

Use of Reserves

Use of the Operating Reserves requires three steps:

1. Identification of appropriate use of re-serve funds.

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

2. Authority to use operating reserves

CUSTOMIZE: This section must be customized to reflect the authority and process selected by the organization. Several possible approaches are included as examples.

- **Approach A:** The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to restore the Operating Reserve Fund to the target minimum amount. If the use of Operating Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will approve or modify the request and authorize transfer from the fund. (**OR**, the Finance Committee will recommend the request to the Executive Committee or the Board of Directors).
- **Approach B:** Authority for use of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer and/ or Chair of the Finance Committee. The use of Operating Reserves will be reported to the Executive Committee/ Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors if the Operating Reserves will take longer than 12 months to replenish.
- **Approach C:** Authority for use [of up to \$xx,xxx] of Operating Reserves is delegated to the Executive Director in consultation with the Treasurer and/ or Chair of the Finance Committee. The use of Operating Reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors for use of Operating Reserves in excess of [\$xx,xxx].

3. Reporting and monitoring.

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

Relationship to Other Policies

[NAME] shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund.

CUSTOMIZE:

- Financial Policy
- Budget Policy
- Contingency or Disaster Preparedness Plan
- Investment Policy

Review of Policy

This Policy will be reviewed every other year, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.

Sample Reserve Policy: Multiple Reserves

Purpose

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

The Reserves Policy will be implemented in concert with the other governance and financial policies of **[NAME]** and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

Definitions and Goals:

Operating Reserve

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

The target minimum Operating Reserve Fund is equal to **[one/two/three/six]** months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes some expenses **[CUSTOMIZE: examples are pass-through programs, one-time or unusual, capital purchases]**.

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

Building and Capital Asset Reserve

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

The target amount of the Building and Capital Asset Reserve will be determined by **[CUSTOMIZE]**.

Opportunity Reserve

The Opportunity Reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the organization which may or may not have specific expectation of incremental or long-term increased income.

The Opportunity Reserve is also intended as a source of internal funds for organizational capacity building such as staff development, research and development, or investment in infrastructure that will build long-term capacity. The target amount of the Opportunity Reserve will be determined by **[CUSTOMIZE]**.

Accounting for Reserves

The Reserve Funds will be recorded in the financial records as Board-Designated [XXXX] Reserve.

The Funds will be funded and available in cash or cash equivalent funds. Reserves [CUSTOMIZE: will be maintained in a segregated bank account or investment fund, in accordance with investment policies OR will be commingled with the general cash and investment accounts of the organization].

Funding of Reserves

The Operating Reserve will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples could include one- time gifts or bequests, special grants, or special appeals.

The Building and Capital Assets Reserve will be funded by [CUSTOMIZE: setting aside funds received from any capital campaigns or similar appeals (OR) setting aside the equivalent amount of cash equal to XX% of depreciation in the annual budget (OR) other calculations].

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

Use of Reserves

Use of the Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

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

2. Authority to use reserves.

CUSTOMIZE: This section must be customized to reflect the authority and process selected by the organization. Each type of reserve may require a different structure and process for authorization. Several possible approaches are included as examples.

- **Approach A:** The Executive Director will submit a request to use Reserves to the Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The organization's goal is to replenish the funds used within twelve months to restore the Reserve Fund to the target minimum amount. If the use of Reserves will take longer than 12 months to replenish, the request will be scrutinized more carefully. The Finance Committee will approve or modify the request and authorize transfer from the fund. (OR, the Finance Committee will recommend the request to the Executive Committee or the Board of Directors).
- **Approach B:** Authority for use of Reserves is delegated to the Executive Director in consultation with the Treasurer and/or Chair of the Finance Committee. The use of Reserves will be reported to the Executive Committee/ Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/ Board of Directors if the Reserves will take longer than 12 months to replenish.

- **Approach C:** Authority for use [of up to \$xx,xxx] of Reserves is delegated to the Executive Director in consultation with the Treasurer and/or Chair of the Finance Committee. The use of Reserves will be reported to the Executive Committee/ Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve Fund to the target minimum amount. The Executive Director must receive prior approval from the Executive Committee/Board of Directors for use of Reserves in excess of [\$xx,xxx].

3. Reporting and monitoring.

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

Relationship to Other Policies

[NAME] shall maintain the following board- approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Fund.

CUSTOMIZE:

- Financial Policy
- Budget Policy
- Contingency or Disaster Preparedness Plan
- Investment Policy

Review of Policy

This Policy will be reviewed every other year, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Directors.



LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS – ABC NON-PROFIT

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of December 31, 2019.

Current financial assets:	
Cash	\$ 50,000
Endowment	40,000,000
Notes receivable	16,000
Pledge receivable	18,000
Accounts receivable	<u>6,000</u>
Current financial assets	40,090,000
Less:	
Endowment	(40,000,000)
Net assets with donor restrictions	(250,000)
Endowment funds be transferred for operations during 2020	<u>2,800,000</u>
Financial assets available to meet cash needs for general expenses within one year	<u>\$ 2,640,000</u>

The Organization is the sole beneficiary of an Endowment fund established in 2020 and as such, there is a distribution made every year from the Endowment in order to cover the expenses of the Organization. The distribution is determined on an annual basis by the Board of Directors based on the operating expenses of the Organization. Other sources of support consist of program fees and contributions from the general public. The annual distribution from Endowment is expected to fund approximately 50% of operating expenses for the following year.

LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS – XYZ NON-PROFIT

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of December 31, 2019.

Current financial assets:	
Cash and investments	\$ 520,000
Investments held by foundation (affiliate)	1,250,000
Restricted cash	6,500
Accounts receivable, net	<u>140,000</u>
 Current financial assets	 1,916,500
Less:	
Net asset with donor restrictions	(50,000)
Board designated "rainy day fund"	(300,000)
Program income internal operating reserve	(90,000)
Assets held for others	(6,500)
Investments held by foundation (affiliate)	<u>(1,250,000)</u>
 Financial assets available to meet cash needs for general expenses within one year	 \$ <u>220,000</u>

From time to time, management may adopt additional self-imposed reservations for unrestricted cash. Management's policy is to monitor all collections of program income and reserve these funds so they may be spent in proportion to monthly budgeted expenses, any surplus is reserved for use in the following fiscal year. When there is a shortage of revenue to meet current month expenses, the Organization's policy is to first use the internal operating reserve, and then use the "rainy day fund." The "rainy day fund" must be replenished before the operating reserve is replenished. Investments held for long-term purposes are controlled by a separate Foundation that has common board members. Vote from the Board of Directors is required to release funds from the Foundation. Assets restricted by donors are not available for general expenditures.



Gift Acceptance Policy

Acceptance of any contribution, gift or grant is at the discretion of the National Council of Nonprofits. The Council of Nonprofits will not accept any gift unless it can be used or expended consistently with the purpose and mission of the Council of Nonprofits.

No irrevocable gift, whether outright or life-income in character, will be accepted if under any reasonable set of circumstances the gift would jeopardize the donor's financial security.

The Council of Nonprofits will refrain from providing advice about the tax or other treatment of gifts and will encourage donors to seek guidance from their own professional advisors to assist them in the process of making their.

The National Council will accept donations of cash or publicly traded securities. Gifts of in-kind services will be accepted at the discretion of the Council of Nonprofits.

Certain other gifts, real property, personal property, in-kind gifts, non-liquid securities, and contributions whose sources are not transparent or whose use is restricted in some manner, must be reviewed prior to acceptance due to the special obligations raised or liabilities they may pose for the Council of Nonprofits.

The Council of Nonprofits will provide acknowledgments to donors meeting IRS substantiation requirements for property received by the charity as a gift. However, except for gifts of cash and publicly traded securities, no value shall be ascribed to any receipt or other form of substantiation of a gift received by Council of Nonprofits.

The Council of Nonprofits will respect the intent of the donor relating to gifts for restricted purposes and those relating to the desire to remain anonymous. With respect to anonymous gifts, the Council of Nonprofits will restrict information about the donor to only those staff members with a need to know.

The National Council will not compensate, whether through commissions, finders' fees, or other means, any third party for directing a gift or a donor to the Council of Nonprofits.

Revision History

On December 7, 2010 the Board of Directors of the National Council of Nonprofits adopted this Gift Acceptance Policy.



Travel Advance Request Form

Name: _____

Signature: _____

Date: _____

Location to be visited: _____

Purpose of trip: _____

Date: From _
(day and time)

To _ _ _ _ _
(day and time)

Estimated Expenses

Airfare Train \$

Private Auto

Lodging \$

Meals

Taxi

Parking _____

Tips

Rental Car

Telephone

Other _____ (Detail on
_____ reverse)

Total Estimated Expenses \$

Maximum Advance x _ _ _ _ _ O/o

Advance Amount \$ _ _ _ _ _

Approval

Name: _____

Signature: _____

Date: _____



Travel Expense Reimbursement Request Form

Date: _____

Name of Employee: _____

Signature: _____

Location Visited: _____

Dates of Travel: From _____ To _____
(date and time) (date and time)

Expenses	Public Carrier	\$ _____ (Receipt required)
	Private Automobile	_____ miles at _____ ¢/mile
	Lodging	_____ (Receipt required)
	Meals	_____ (Details on reverse)
	Car Rental	_____ (Receipt required)
	Tips	_____ (Detail on reverse)
	Entertainment	_____ (Detail on reverse)
	Taxi	_____ (Receipt required)
	Telephone	_____ (Detail on reverse)
	Parking and Tolls	_____ (Receipt required)
	Other Expenses	_____ (Detail on reverse)
	Total Expenses	\$ _____
	Less Travel Advance	- _____
	Total Due Employee or Organization	\$ _____ (Attach check)

Approved by Name: _____

Signature: _____

Date: _____

For Accounting Use Only

Account#

\$ Amount

Account#

\$ Amount

Monthly Expense Reimbursement Request

Date	Location Visited	Mileage	Other Expenses

TOTAL _____ \$ _____

Total Miles @ per mile \$ _____

Total Other Expenses _____

Total Requested \$ _____

Approved:

Name: _____

Name: _____

Signature: _____

Signature: _____

Date: _____

Date: _____

For Accounting Use Only

Account#

\$ Amount

Account#

\$ Amount



Whistleblower Protection Policy

Statement of Purpose

In keeping with the policy of maintaining the highest standards of conduct and ethics, Every Nonprofit will investigate any suspected fraudulent or dishonest use or misuse of Every Nonprofit's resources or property by staff, board members, consultants, or volunteers. Staff, board members, consultants, and volunteers are encouraged to report suspected fraudulent or dishonest conduct pursuant to the procedures set forth below.

No Retaliation

No person, who in good faith reports a concern, shall suffer harassment, retaliation, or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns within the organization prior to seeking resolution outside the organization.

Reporting Violations

A person's concerns about possible fraudulent or dishonest use or misuse of resources or property should be reported to his or her supervisor or, if suspected by a volunteer, to the staff member supporting the volunteer's work. If, for any reason, a person finds it difficult to report his or her concerns to a supervisor or staff member supporting the volunteer's work, the person may report the concerns directly to the chief executive or board of directors. Alternately, to facilitate reporting of suspected violations where the reporter wishes to remain anonymous, a written statement may be submitted to one of the individuals listed above. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

Acting in Good Faith

Anyone filing a complaint concerning a violation or suspected violation must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

My signature below indicates my comprehension and agreement with the above policy.

Signature

Date

WHISTLEBLOWER POLICY

COMPASSPOINT

If any employee reasonably believes that some policy, practice, or activity of CompassPoint is in violation of law, a written complaint may be filed by that employee with the Chief Executive Officer.

It is the intent of CompassPoint to adhere to all laws and regulations that apply to the organization, and the underlying purpose of this Policy is to support the organization's goal of legal compliance. The support of all employees is necessary to achieving compliance with various laws and regulations. An employee is protected from retaliation only if the employee brings the alleged unlawful activity, policy, or practice to the attention of CompassPoint and provides CompassPoint with a reasonable opportunity to investigate and correct the alleged unlawful activity. The protection described below is only available to employees that comply with this requirement.

CompassPoint will not retaliate against an employee who, in good faith, has made a protest or raised a complaint against some practice of CompassPoint, or of another individual or entity with whom CompassPoint had a business relationship, on the basis of a reasonable belief that the practice is in violation of law or a clear mandate of public policy.

CompassPoint will not retaliate against an employee who discloses or threatens to disclose to a supervisor or a public body any activity, policy, or practice of CompassPoint that the employee reasonably believes is in violation of a law, or a rule, or regulation mandated pursuant to law or is in violation of a clear mandate or public policy concerning health, safety, welfare, or protection of the environment.

My signature below indicates my receipt and understanding of this Policy. I also verify that I have been provided with an opportunity to ask questions about the Policy.

Employee Signature

Date

California law requires the Notice below to be posted at the workplace. The Whistleblower Policy extends beyond the law by encouraging complaints of law violations as well as by prohibiting retaliation.

CALIFORNIA'S WHISTLEBLOWER LAW

California law requires that all employers display a posting in lettering larger than 14-point type describing employees' rights and responsibilities under the whistleblower laws. The text below is printed in 15-point type.

- **An employee is entitled to disclose information to a government or law enforcement agency where the employee has a reasonable cause to believe that the information discloses a violation of state or federal statute, rule, or regulation.**
- **An employer may not adopt or enforce any rule or policy preventing an employee from disclosing such information.**
- **An employer may not retaliate against an employee for refusing to comply with any such policy.**
- **An employer may not retaliate against an employee for exercising his or her rights of disclosure.**
- **Any employer who violates this law may be penalized by a civil penalty up to \$10,000 for each violation.**

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ⁱCompassPoint is pleased to share with the nonprofit community some of their key governance documents. They invite you to adapt this document for your own use; please note that these materials are provided for informational purposes only and do not constitute legal advice.

For more information, or more governance and financial documents, visit their website at www.compasspoint.org.



Nonprofit document retention requirements — understanding what merits retention

The Sarbanes-Oxley Act (SOX) is directed at improving corporate transparency and accountability. For nonprofits, key among the SOX provisions are document retention practices — yet the law doesn't provide explicit document retention schedules. Still, you're not left to figure it out on your own.

Here's a quick summary of common recommendations from the Charities Review Council and other nonprofit-focused organizations. In some cases, state-specific sample document retention policies are available through the local [state association of nonprofits](#).

Keep in mind, however, these are simply guidelines. Your organization may choose to keep certain documents permanently — or on a schedule recommended by your finance or legal advisers.

Corporate records

Document	Retention period
Annual reports to the secretary of state or attorney general	Permanent
Articles of incorporation	Permanent
Board meeting and board committee minutes	Permanent
Board policies and resolutions	Permanent
Bylaws	Permanent
Construction documents	Permanent
Fixed asset records	Permanent
IRS application for tax-exempt status (Form 1023)	Permanent
IRS determination letter	Permanent
State sales tax exemption letter	Permanent
Contracts	7 years after termination
General correspondence	3 years

Accounting and corporate tax records

Document	Retention period
Annual audits and year-end financial statements	Permanent
Depreciation schedules	Permanent
IRS Form 990 tax returns	Permanent
General ledgers	7 years
Business expense records	7 years
IRS Form 1099	7 years
Journal entries	7 years
Invoices	7 years
Sales records (books)	5 years
Petty cash vouchers	3 years
Cash receipts	3 years
Credit card receipts	3 years

Bank records

Document	Retention period
Check registers	7 years
Bank deposit slips	7 years
Bank statement and reconciliation	7 years
Electronic fund transfer documents	7 years

Payroll and employment tax records

Document	Retention period
State unemployment tax records	Permanent
Payroll records	Permanent

Garnishment records	7 years
Payroll tax returns	7 years
W-2 statements	7 years
Employment tax records	At least 4 years after filing the year's 4th quarter taxes (or longer, if required by state law)

Human resource records

Document	Retention period
Employment and termination agreements	Permanent
Retirement and pension plan documents	Permanent
Records relating to promotion, demotion or discharge	7 years after termination
Accident reports and workers' compensation records	5 years
Background checks, drug test results, driving records and employment verifications	5 years
Resumes, employment applications and related materials (including interview notes) for employees	4 years after termination
Resumes, employment applications and related materials (including interview notes) for applicants not hired	3 years
Timesheets, compensation history and job history	4 years after termination
Performance appraisal and disciplinary action records	4 years after termination
I-9 forms	3 years after hire date or 1 year after employment ends (whichever is later)

Donor and grant records

Document	Retention period
Donor records and acknowledgment letters	7 years
Grant applications and contracts	7 years after expiration

Legal, insurance and safety records

Document	Retention period
Appraisals	Permanent
Copyright registrations	Permanent
Environmental studies	Permanent
Insurance policies	Permanent
Real estate documents	Permanent
Stock and bond records	Permanent
Trademark registrations	Permanent
Leases	7 years after expiration
OSHA documents	5 years
General contracts	3 years after expiration

When the retention period for any particular document has ended, be careful to erase, shred or otherwise destroy the document so that any confidential information can't be read or reconstructed.

This article draws on the expertise of Grace Davies, a Minneapolis-based attorney with special interest in product liability, medical malpractice and employment discrimination.

References

Adelphi University: [Document destruction and retention policy](#)



Table Top Discussions

Scenario #1

Homeless Shelter ABC recently lost their Executive Director (ED) due to an unforeseen retirement. The Board of Directors needs to replace the ED before the end of the summer. Three persons have applied for the position; one of them is a current Board Member and has been in the Board for five years. The second candidate is a Program Director that has been with the Organization for ten years. The third person is an out-of-town individual with experience in running bigger shelters and has an impressive resume. The Organization has no committees formed on its Board of Directors and has not reviewed its conflict of interest policy since 2001. The Organization manages several federal awards. What are some best practices to follow in this scenario?

Scenario #2

You are a new Board Member in Happy Tails and Happy Paws and you find out that the Organization does not have a formal written conflict of interest policy. In reviewing the financial statements for the Organization, you learn that one of the Agency's major maintenance vendor is an LLC owned by one Board Member. This vendor has been the primary contractor for Happy Tails and Happy Paws for the last seven years. Further investigation reveals an unusual increase in fees paid to this vendor in the most current fiscal year. What suggestions can you give to the rest of the Board Members to investigate this item?

Scenario #3

In 2018, Children's Foster care received a \$1,000,000 donation from the estate of an anonymous individual. While the Board of Directors is very excited, they are also concerned that the Organization's donor base will be discouraged from renewing their support. There was already a drop in contributions observed in 2019. What are some recommendations the board members can provide to the Executive Director?

Scenario #4

In 2019, Meals for EP incurred an operating loss as a result of a temporary decrease in unrestricted donations. The Organization is in stable financial condition, but the Executive Director (ED) and the Chief Financial Officer (CFO) have expressed some concern about cash flows. The CFO proposed some cost reduction measures that will help improve finances in the short term. However, the CFO and ED are unsure as to how else improve the Organization's finances, given that donations have been the principal source of revenue for many years. The Organization owns real estate that is sitting idle, and the ED knows about other similar organizations that report "program income" on their Form 990s. The Organization has not had a change on their budgeting philosophy since its formation.



Scenario #5

A group of friends formed a nonprofit in 2016 that has the purpose of raising funds to provide musical instruments and music lessons to disadvantaged teenagers. The Organization's expenses and revenue have doubled since its creation and is now on its fourth year of existence. However, during this time the Organization has only accepted donations from Board Members, who are the original group of friends that created the nonprofit. The Organization's CPA warned Board Members about some sort of "public support rule." What can Board Members do to ensure the Organization meet's the public support rule by the end of 2021? Also, the Organization does not keep the minutes of any Board Meetings, or has a conflict of interest policy. What are some of the implications on the Form 990?

Scenario #6

To make things easier for employees, and reduce paper waste, Happy Tails and Happy Paws has created a new spending policy. Instead of using checks to pay for vendors, each of the Organization's shelters has given a corporate credit card to their Managers. Managers keep their credit cards at all times and are required to turn in receipts at the end of each month. The Controller, Mike, has been having a really hard time keeping up with the new spending policy. There are three shelters, and each shelter has two managers. In addition, the E.D. has a credit card, and Mike has a credit card of his own. At the end of the calendar quarter, the Organization's Board of Directors has noted that expenses on each shelter have increased. Mike has also been late in preparing the last financial report, and he has expressed some frustration in getting all the support needed to account for credit card expenses. In addition, Mike is the only person that receives a credit card statement. The Board Members have always trusted him to take care of things. What are some red flags in this scenario?

Scenario #7

Crayons Childcare is a small nonprofit with only 10 employees. The Organization uses QuickBooks to record all accounting transactions. The QuickBooks software is saved on the Office Manager's computer. There are no periodic backups performed to her computer, and the Manager is unsure as to whether her computer has an antivirus or firewall protection. Also, the QuickBooks file is a BIG file, makes her computer slow, and crashes every now and then. How can Board members sleep better at night?

Scenario #8

At the end of the previous audit, Homeless Shelter ABC's auditor told Board members that the Organization does not have a whistle blower policy. You are tasked with helping the controller come up with a new policy. What are some considerations?