

Note: This may seem to be “overkill” for such a small organization. The Executive Committee is proposing these policies to ensure that the 501(c)3 status which the IRS has given to the Friends will not be jeopardized. This is also why the Friends have adopted conflict of interest and whistleblower policies in the last few years—the IRS mandates these for all non-profits, regardless of size.

Friends of the Library Financial Policies

Goals of the financial policies and procedures:

- Ensure compliance with federal, state, and local legal and reporting requirements.
- Fulfill the board’s responsibility for prudent financial management.
- Protect Friends volunteers and library staff from charges of mishandling funds by segregating duties and dividing responsibilities for accepting and using funds.

ACCOUNTING POLICIES AND PROCEDURES

Policy: *The accounting procedures used by the Friends of the Library (FOL) shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.*

FOL will:

- Use the accrual basis of accounting as required by GAAP for non-profits.
- Use QuickBooks (QBs) to maintain its books and records.
- Reconcile its books and report its financial condition to the EC quarterly and the BOD twice a year.
- Keep all paper accounting records and electronic files secure.

Basis of Accounting

FOL shall use the accrual basis of accounting, that is, record income and expenses as they are incurred.

- Invoices received after closing the books will be counted as a current-month expense.
- To the extent possible, the Treasurer (TR) will pay December bills in December in order to ensure that year-end financial statements reflect all expenses incurred during the fiscal year. Year-end books are closed no later than 30 days after the end of the fiscal year.
- Revenue is always recorded in the month in which it was earned or pledged—even if the revenue will fund operations/programs in subsequent years.

Closing the Books

- The books will be closed no later than the 10 days after the close of the month.
- All receipts and expenditures will have the account and program identified.

Bank Reconciliations

- Bank accounts will be reconciled by the 15th of the month.
 - The TR will open the bank statements or download statements from the bank web site.
 - All accounts will be reconciled with QBs by the TR in the closing process.
 - The TR will generate reconciliation reports and save them on the FOL dropbox account.
 - The TR will send reconciliation reports to EC quarterly.

Journal Entries (JEs)

- Any JEs will be made by the TR in conformance with GAAP.

Recordkeeping

- All paid invoices, bills, records of deposits, and other payment records are filed by the TR monthly.
- FOL will follow the document retention policy attached as Appendix A.
 - The BK will manage the flow of documents by using the two, three, seven, and permanent holding schedule. The BK will construct areas in the office filing cabinet for moving documents to the appropriate section.
 - In general, documents will be kept in current year files until the financial statements and Form 990 are approved by the board. After approval, these records are moved to the past year file.
 - Whenever documents are to be destroyed, the BK collects documents to be destroyed and reviews them with the EC for approval.
 - Once approved by the EC, the TR shreds the documents.

REVENUE & ACCOUNTS RECEIVABLE

Revenue Recognition

Policy: All contributions will be recorded in accordance with GAAP, with specific attention to standards FASB 116 and 117. Contributions are recorded as pledged or received in accordance with FASB 116, and must be credited to the appropriate revenue lines as presented in the annual budget and coded as designated in the organization's Chart of Accounts.

- All revenue received shall be recognized as unrestricted, temporarily restricted, or permanently restricted based on the intent of the donor.
- If the revenue is from contributors who have not requested that the money be spent in a particular way, the TR will deposit the funds to the operating account 10100 Checking Unrestricted.
- If the revenue is from a gift or grant that is temporarily or permanently restricted, the TR will deposit the funds to the operating account 10200 Checking Restricted. Restricted gifts must be accompanied by a letter that is dated, signed by the donor, and specifies the restrictions to which the gift or grant is subject.
- If the TR collects checks that are both restricted and unrestricted funds, the deposit will require two deposit tickets.
- When FOL accumulates expenses for a restricted gift, the TR will provide the EC with a P&L by job listing expenses that can be released from a restricted account on a quarterly basis (except for the month of December). The TR moves the funds from the restricted to the unrestricted account after the EC approves the transaction.
- Any restricted funds unspent at the end of the year will be moved onto the balance sheet at year end to be spent according to the project budget the following year.

Cash Receipts/Deposits

Policy: FOL will separate responsibility for taking in cash and checks and making deposits to provide a check and balance for this function. The goal of segregation of duties is to reduce the possibility of fraud and to protect FOL from unwarranted allegations of misusing funds.

- The Library Director (LD) will open all mail and place the checks in the safe for TR pickup and deposit.

- The TR picks up the checks and makes copies of the checks.
- The TR makes the deposit and attaches the deposit receipt to the copies.
- The TR files the deposit packages monthly.
- At events where cash is generated (book or bake sale, donations at programs), the event volunteers count the cash and give it to the TR to count again and deposit.

Securities Instructions (if FOL receives a gift of securities)

- FOL donors will be instructed to authorize a wire transfer of marketable securities from their account to the FOL Fidelity account.
- Donor will be instructed to write or email FOL the date and details of the marketable securities wired to the FOL Fidelity account (e.g., what security or fund and how many shares).
- The donor will be notified of the value of the stock at the time of donation. This is the tax deductible amount to the donor.
- FOL TR will sell the securities within a day or two of receiving the donor's notice of the gift
- The TR will post the sale transaction in QBs:
 - Donation amount as the contribution from the donor
 - Gain or loss on the sale (difference between the value at the time of the donation and the time of the sale). Selling the securities quickly will minimize the possible loss.
 - Transaction costs (as a negative number).
- The Secretary is responsible for communicating the sale value to the donor.
- FOL will transfer all sales of securities within the Fidelity account to the FOL operating account per instructions (restricted or unrestricted) as the transactions happen but at least by end of year.

EXPENSE & ACCOUNTS PAYABLE

Cash Disbursements

Policy: All payments to vendors must have documentation (receipt, bill, or invoice).

- The TR pays all bills presented by the FPL treasurer that are within the approved budget for the year.
- The TR reviews any expenses in excess of the approved budget after discussion with the President.
- If the over budget expenses exceed the President's authorization level, the President will ask for a vote of the FOL Board of Directors.
- The TR pays all bills incurred for FOL operating expenses up to the budget amount.
- All materials provided for payment must have the detail of the expenditure. A canceled check is not sufficient documentation for approval of payment.

INTERNAL CONTROLS

Policy: FOL will employ several safeguards to ensure that financial transactions are properly authorized, appropriated, executed and recorded.

- *The board will establish lines of authority for itself and all people involved in the financial process to ensure financial transactions are completed appropriately.*
- *FOL maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to money, securities, real estate and other valuable property.*

Lines of Authority

- The Executive Committee (EC) proposes and the Board of Directors (BOD) approves all financial policies. The EC reviews policies and makes recommendations for changes at least every three years.
- The EC approves all transactions involving transfers from restricted and board designated funds on balance sheet accounts. Anytime such a transaction occurs, the TR provides the EC with a sheet on which to record the date, amount, accounts involved, and supporting documentation. The President signs the form. The form is filed with bank records.
 - Once the form is signed, the TR makes the transfer on line. The record of the transfer is printed and filed with bank records.
- Access to accounts online is limited to the TR and one other EC member who can pay bills and make board approved transactions.
 - The LD will have no access to bank accounts.

Physical Security

- All paper accounting records are kept in the Freedom Public Library in a locked file cabinet.
- Electronic files are kept in a password protected location on the FOL network and backed up to Dropbox. The EC and TR have access to the Dropbox password.
- The FOL QBs file is password protected and only the EC and TR have the password. The password is changed annually.
- Blank checks are kept at the TR's home. If the TR is away, she will leave checks for the other signer.

Budgeting Process

Policy: Budgeting Process

FOL's annual budget is prepared by program by the TR with a major input from the LD. The TR presents the budget to the Board of Directors for approval at the November FOL meeting. The budget is revised during the year only if approved by the Board of Directors.

- The budget is prepared in the fall and completed by the November meeting.
- The budget is proposed by the LD (wish list), the TR, and committee heads based on program requirements. The TR provides worksheets to the LD and committee heads with current year budget and actual expenses.
- The BOD amends and/or approves the budget at the November meeting.
- The BOD may revise the budget during the year or approve the EC's or TR's suggestions for revisions.

Internal Financial Reports

Policy: Internal Financial Reports

FOL prepares regular financial reports on a quarterly basis. All reports are finalized no later than 30 days after the close of the prior quarter.

- The following year-to-date reports are prepared by the TR within 30 days of the end of each month: FOL P&L, P&L report by program, budget versus actual, and status of restricted funds P&L by job).
- Financial reports are reviewed by the EC. The EC presents reports to the BOD for the semi-annual meetings.

Tax Compliance

Policy: Tax Compliance for 501c-3

FOL files the NH Charitable trust report (NH CT-45) and Form 990-N annually.

- The TR completes the NH CT-45 and the Form 990-N (e-Postcard) annually.

Operating Reserve

Policy: The Board of Directors will set the operating reserve annually as part of the budget approval process.

- The TR will propose the amount of the operating reserve to the EC at the November meeting with the annual budget if the budget shows a deficit.
- The EC will propose the operating reserve to the BOD for approval.

Appendix A

Document Management Policy Friends of the Library Approved 05/22/2012

Intent: The purpose of this policy is to be compliant with the IRS requirement that 501c3 organizations have such a policy. (It is a question on the Form 990.) This policy will establish standards for retaining and destroying documents.

- I. Storage: Friends' documents will be stored on the premises of Freedom Public Library for all but the current year. If an officer wishes to keep current year files at his/her home, that is allowable as long as s/he maintains these documents in well labeled files and places a notice in the library storage area where these files can be found.

Paper documents will be stored in a file cabinet or other safe place in the library. Electronic documents will be stored on the library server (if available) or other electronic option (e.g., Google bulk storage). [This electronic document storage location will be finalized with Elizabeth and FPL's computer consultant.]

- II. Access: IRS requires that 501c3 organizations provide copies of documents on request. These requests will be handled by a member of the Executive Board. If a Board member wants to use any documents, the member must sign them out.

- III. Specific Documents

The list below shows documents that the Friends of the Library currently uses. The Friends will manage their documents according to the following schedule:

- Bank statements: 10 years
- Cash books: 10 years
- Checks (canceled, with exception below): 10 years
- Checks (canceled, for important payments; i.e., taxes, purchase of property, special contracts, etc. [checks should be filed with the papers pertaining to the underlying transaction]): Permanently
- Correspondence, general: 4 years
- Correspondence (legal and important matters): Permanently
- Donation records, other than records of endowment funds and of significant restricted funds: 10 years
- Expense analyses and expense distribution schedules (includes allowance and reimbursement of employees, officers, etc., for travel and other expenses): 10 years
- Financial statements (end-of-year): Permanently
- General ledgers and end-of-year statements: Permanently
- Internal reports, miscellaneous: 3 years
- Invoices from vendors: 10 years
- Journals: 10 years
- Minute books of Board of Directors, including Bylaws and Articles of Incorporation: Permanently
- Tax returns and worksheets, revenue agents reports, and other documents relating to determination of tax liability: Permanently
- Volunteer records: 3 years

The Friends do not currently use the following documents, but if and when they come into use, the

retention period is as listed:

- Accounts payable ledgers and schedules: 10 years
- Accounts receivable ledgers and schedules: 10 years
- Audit reports of accountants: Permanently
- Capital stock and bond records: ledgers, transfer payments, stubs showing issues, record of interest coupon, options, etc.: Permanently
- Contracts and leases (expired): 10 years
- Contracts and leases still in effect: Permanently
- Depreciation schedules: 10 years
- Donation records of endowment funds and of significant restricted funds: Permanently
- Duplicate deposit slips: 10 years
- Employee personnel records (after termination): 7 years
- Employment applications: 3 years
- Insurance policies (expired): Permanently
- Insurance records, current accident reports, claims, policies, etc.: Permanently
- Inventories of products, materials, supplies: 10 years
- Invoices to customers: 10 years
- Payroll records and summaries, including payments to pensioners: 10 years
- Purchase orders: 3 years
- Sales records: 10 years
- Scrap and salvage records: 10 years
- Subsidiary ledgers: 10 years
- Time sheets and cards: 10 years
- Voucher register and schedules: 10 years

Notes:

- Donation records include a written agreement between the donor and the charity with regard to any contribution, an email communication or notes of or recordings of an oral discussion between the charity and the donor where the representative of the charity made representations to the donor with regard to the contribution on which the donor may have relied in making the gift.
- Emails that fall into one of the above categories or deal directly with one of the above categories shall be considered documents under this policy.
- All permitted document destruction shall be halted if the organization is being investigated by a governmental law enforcement agency, and routine destruction shall not be resumed without the written approval of legal counsel or the Board Chair.
- This policy does not require that the Friends dispose of any documents of historical or other value that the Friends wish to retain.