
DREAMS FISCAL POLICIES & PROCEDURES MANUAL

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I. PURPOSE OF THE MANUAL

This manual has been designed as a reference for staff and board of DREAMS Center for Arts Education (DREAMS). DREAMS was incorporated in 1997 in the state of North Carolina as a non-profit corporation. It is a 501(c)(3) according to Internal Revenue Service classifications.

The manual includes fiscal policies established by the board and Executive Director, and fiscal procedures designed to implement those policies and provide simple methods to manage the organization's business affairs. Also included in this manual are the Internal Controls Policies and Procedures.

The manual will be updated periodically to reflect changes and clarifications in policies and procedures. The Executive Director will establish appropriate procedures to be certain that copies of the manual in use are updated and outdated policies and procedures are removed.

II. FISCAL MANAGEMENT POLICIES

A. Generally Accepted Accounting Principles (GAAP):

Except when noted, DREAMS follows Generally Accepted Accounting Principles (GAAP) for nonprofit voluntary health and welfare organizations.

B. Accrual Accounting:

DREAMS utilizes the accrual basis of accounting in which revenues are recorded in the period in which they are earned and expenses are recorded in the period in which they are incurred regardless of when cash is received or disbursed.

C. Restricted Revenue:

DREAMS records revenue when restricted funds are promised or received in advance of the provision of the services or incurring of expenses for which the funds are provided. Revenues are classified as Restricted Revenues on the audited financial statements, which are presented in accordance with Financial Accounting Standards Board (FASB) 116 and 117.

D. Equipment, Furnishings, and Real Property:

DREAMS records equipment with a useful life of more than 1 year and cost of more than \$1000 as an asset. Equipment with useful life under 1 year and/or cost of \$1000 or less is recorded as an expense.

Equipment purchased with restricted grant funding is coded to the expense account in the fund providing the money during the fiscal year, so that the purchase may be easily tracked for reporting to the funder. At fiscal year end, a journal entry is made which records the purchase as an asset in the equipment account in the Unrestricted fund and credits it out of the equipment purchases account and debits it out of the fund balance account in the restricted fund.

Depreciation expense and an allowance for depreciation is recorded monthly for all equipment, furnishings, and real property owned by DREAMS. Discrepancies are recorded post-audit via closing journal entries.

E. Donated Materials, Equipment, and Services:

DREAMS records in-kind gifts of equipment as in-kind contributions, an income account, and as equipment, an asset account. Donated equipment is recorded at the fair market value on the date of donation. Fair market value is the price at which the item would be sold by a willing buyer to a willing seller.

Donated material which does not meet the definition of equipment is not recorded as "in-kind supplies expense" and "in-kind contribution" in accordance with FASB 116. Volunteer time of professionals in their professional capacity is recorded as "in-kind income" and "in-kind expense." Other volunteer time is not recorded in accordance with FASB 116. There is no net effect of recording in-kind labor and its associated in-kind contribution income. The recording of in-kind contribution income for the value of donated equipment results in an increase in net income because the value of the donated equipment is recorded as an asset not as an expense.

F. Cost Allocation:

DREAMS develops its cost allocations within its budgeting process, and uses these allocations as the basis of negotiations with funders.

DREAMS develops an annual written cost allocation plan to fairly allocate shared costs among the various functions performed by the organization. The written cost allocation plan is utilized as the basis of negotiation of costs with funding sources. The cost allocation plan is applied consistently to all programs. It may be revised during the year upon approval of the Executive Director and Board of Directors.

G. Restricted Funds:

Grants and contracts from grantors who restrict the use of funds are recorded in separate customers:jobs in Quickbooks during the year. The use of restricted gifts is linked to the purpose specified by the donor/grantor. A separate job is established for each restricted funding source which utilizes line item budgets. Expenses which fulfill the restrictions of the donor/grantor are recorded in that donor/grantor's job. Separate bank accounts are not required for each restricted funding source. Internal financial statements are presented using a customer/job report; year-end audited financial statements are presented on a Net Assets basis, using Unrestricted, Temporarily Restricted, and Permanently Restricted classes of Net Assets in accordance with FASB 117.

H. Functional Expense:

DREAMS utilizes distinct cost centers to record costs of its distinct program and management functions. Each cost center contains the specific expense account line items needed to record the specific expenses of performing its respective functions.

I. General Ledger:

DREAMS maintains a complete double-entry General Ledger reflecting the complete chart of accounts and segregating costs by function and by restricted funding source requirements.

J. Budget:

The Board of Directors adopts a comprehensive organization-wide budget for each fiscal year. The budget reflects all anticipated revenues from all sources and all anticipated expenses. Board adoption of the budget constitutes authorization for staff to incur budgeted expenses. A mid-year budget revision may be accomplished and approved by the Board of Directors on an “as needed” basis.

K. Financial Statements:

The board receives a Profit and Loss with Budget Performance Statement for each month during the month following the month for which the statements are prepared. A Grant Summary Report indicating the budgeted grants, the receipt of funds by month and YTD remaining totals is also provided. The statements are presented to the board by the board Treasurer, who has reviewed them with the Operations Manager. The financial statements facilitate identification of restricted and unrestricted funds and comparison of actual income and expenses to budget.

L. Audit:

The board selects an independent CPA to conduct an annual audit of all funds of DREAMS. The auditor is required to present the results of the audit to the board or a designated board committee. No single independent CPA will be used for 7 consecutive annual audits.

M. Interest Bearing Accounts:

DREAMS places funds in interest bearing accounts whenever practical and permissible by funding source agreements. SEE INVESTMENT POLICY FOR DETAILS.

III. PURCHASES AND DISBURSEMENT PROCEDURES

A. Purchases:

Authorization by a supervisor is required prior to all purchases. Standing authorization for routine expenditures such as utilities and copier maintenance is provided by board approval of the annual budget. Employees desiring to make purchases should put the request in writing, describing the item briefly, its cost, and the project to which it is to be charged, and give the request to the Operations Manager when total expense does not exceed \$200 and to the Executive Director when in excess of \$200. The Operations Manager codes the request to the appropriate job and/or cost center, Once the purchase has been approved, the Operations Manager cuts the check or signs a credit card out for approved purchase only. Alternatively, with prior approval of the supervisor and only in extenuating circumstances, an employee may purchase the item with her/his own funds and submit a written request for payment, complete with receipt, to the Operations Manager who will prepare a reimbursement check on or about the 15th of each month.

For expenditures in excess of \$1,000, excluding routine expenditures such as utilities, the Executive Director will request approval from the Board Chair or the Board Treasurer prior to issuing payment.

For non-grant specified expenditures over \$5,000, the Executive Board Officers and Executive Director will perform reasonable research on items/services, including comparative analyses of salaries/costs and qualifying recommendations. Findings are presented to the executive board, which then makes an informed decision regarding the expenditure.

B. Processing Invoices:

All invoices/statements from outside vendors will be routed to the Operations Manager.

The Operations Manager supplies the account code and prepares the check. The Operations Manager assembles invoices and bills, and prints checks in accordance with due dates and budgeting concerns. The Executive Director signs checks and returns the signed checks to the Operations Manager. The Operations Manager then mails the checks, staples the check stubs and any backup information, such as an invoice, packing slip, etc., and files the document by vendor in the vendor files.

C. Check Preparation:

DREAMS utilizes three-part check stock. The check document is the top portion, the detail which accompanies the check is under it, and at the bottom is the check stub which will be attached to the invoice for filing. Voided checks are marked VOID. The original check is retained in the VOID check file.

D. Check Signatures:

The board authorizes check signers through board resolution. Checks for under \$1000 require one signature and may be signed by the Executive Director. All check signers must review the documentation attached to the checks prior to signing the checks. Currently, the Executive Director, the Board Chair and the Board Treasurer are authorized check signers.

E. Distribution of Checks:

Once checks are signed, the Operations Manager removes the attached documentation for filing and places the check in envelope for mailing. Checks for staff reimbursements or purchases are released to the approved staff member. Payroll checks are made via direct deposit as a rule, and occasionally by paper check with Executive Director's approval.

F. Filing Paid Invoices:

Once checks have been separated from paid invoices, the invoice, packing slip (if applicable) and check stub are stapled together by the Operations Manager. These documents are filed by vendor chronologically, i.e. the most recent invoice placed at the top of the file. Reimbursements to employees are filed by employee in the vendor files, treating employees as vendors.

G. Employee Travel Expense Procedures:

Staff members who travel for their jobs may be provided with a company credit card for charging their job-related travel expenses only. Personal charges should not be charged to DREAMS credit cards.

Employees may submit a request for a travel advance by estimating costs on a travel voucher form to the Operations Manager, or may submit their actual expenses with a travel voucher form for reimbursement after the travel. All travel advances must be reconciled with actual expenses incurred within 15 days of return from the travel. The reconciliation takes place on the travel voucher form, and the form must be submitted to the Operations Manager whether or not money is owed to the employee. When additional reimbursement is owed to the employee and has been approved by the Executive Director, the Operations Manager will cut a check on the next normal check processing day (on or about the fifteenth day of the month). When the employee owes DREAMS money (because the advance was for more than the actual travel) a refund check, payable to DREAMS, must be submitted with the travel voucher form to the Operations Manager.

DREAMS will not pay for personal items or services while traveling.

Staff mileage reimbursement, includes the cost of gasoline and wear/tear. Separate gasoline costs will not be reimbursed. Gasoline costs may alternately be charged to DREAMS credit cards, in which case no mileage reimbursement will be made to cover wear and tear of employee vehicle.

Staff travel expenses are coded by the Operations Manager.

IV. PROCEDURES FOR RECEIPT AND DEPOSITS FOR CASH AND CHECKS

A. Funds Received:

The Operations Manager sorts mail and distributes appropriately.

When cash payments are received in the office, the Operations Manager issues a receipt generated by Quickbooks.

Funds received via ACH transactions, PayPal, Facebook, Stripe, Square, Snowball, DipJar, etc. are recorded in Quickbooks and acknowledged according to IRS rules.

B. Bank Deposits:

Checks are copied prior to deposit preparation. A deposit slip is prepared and all back up of checks is attached to the deposit Detail generated by Quickbooks. The deposit receipt received at the Bank is attached to the check copies, back up and Quickbooks report of the deposit. Acknowledgement letters are generated from the deposit detail and when mailed, the deposit detail is marked with “ACK” beside each payer requiring acknowledgement. The deposit record packet is then filed and maintained based on bank account and fiscal year.

C. ACH (Electronic) Deposits:

All ACH/Electronically transmitted deposits are kept on file and properly invoiced and/or acknowledged after being entered in Quickbooks.

V. PROCEDURES FOR ACCOUNTS RECEIVABLE

A. Payments from Grantors:

Payments from grantors received in the mail are opened by the Operations Manager. The Operations Manager enters payments into Quickbooks, noting the grantor name and amount as well as the restricted nature of the funds. If not already created, a customer:job will be created to reflect the income and expenses associated with the funds. Funds will be designated as either Restricted or Unrestricted according to the terms of the Grant.

VI. BILLINGS AND FISCAL REPORTS TO FUNDERS

All financial reports to funders are to be prepared directly from the General Ledger of DREAMS by the Operations Manager. Staff responsible for supervision of grant/contract funded activities will prepare all required narrative portions of funder reports and review all fiscal portions prepared by the Operations Manager prior to submission.

Whenever feasible, the General Ledger amounts will be established to correspond to funder fiscal report categories. When this is not feasible, the Operations Manager will prepare worksheets for each fiscal report documenting the source of all information reported by General Ledger account number and funder report line number or caption.

VII. PAYROLL PROCEDURES

A. Payroll:

The Operations Manager prepares all paychecks via Quickbooks Payroll, payroll tax reports, and employee payroll records. Before processing payroll, the Executive Director will review and approve all payments. Payroll is paid by direct deposit except in extenuating circumstance. Copies of all payroll journals, payroll tax reports, and individual payroll records must be maintained at DREAMS for a minimum of seven years (see Records Retention and Destruction Policy). The Operations Manager is responsible for assuring the completeness and order of the payroll record files.

B. Pay Periods:

For salaried and hourly W-2 employees DREAMS utilizes a bi-monthly pay period, with paychecks issued on the business day closest to the 15th of the month and the last day of the month. For 1099 Contracted Teaching Artists, a once monthly pay date occurs on the business day closest to the 15th of the month and is for hours worked during the previous month.

For hourly employees, the work week begins at 12:01 am Thursday and ends at 12:01 Wednesday. Hourly employees are paid at time and one half for hours worked over 40 within this work week.

C. Benefit and Miscellaneous Payroll Payments:

The Operations Manager generates checks for health, dental and vision insurance benefits and for any wage garnishments.

VIII. GENERAL LEDGER

A. Monthly General Ledger Preparation:

The Operations Manager maintains the general ledger through Quickbooks on a daily basis and reconciles all accounts at month end. General Journal Entries are made at month's end as well.

B. Review of Financial Statements:

The Operations Manager prepares all financial statements at the direction of the Executive Director and/or Board of Directors monthly. The Operations Manager reviews statements and makes any pertinent notes to assist Executive Director and Board in understanding the previous month's financial activities.

The Operations Manager reviews the statements with the Executive Director and upon approval, emails the financials to the Board Treasurer.

IX. BUDGET PREPARATION AND REVISION PROCEDURES

The Operations Manager prepares DREAMS's organizational budget for each fiscal year, by fund, cost center, and line item. The budget is reviewed with the Executive Director and the board Treasurer, who present it to the full board for discussion and approval.

Revisions to the annual budget are necessary when new funding sources are received mid-year. The Operations Manager prepares budget revisions, including both the new funding source budget and any changes to other budgets caused by changes in cost allocations. The revisions are reviewed by the Executive Director and the board Treasurer, who then present the revisions to the full board for approval.

X. INTERNAL CONTROLS

A. Petty Cash:

The Operations Manager stores a locked cash box in a locked file cabinet for Petty Cash. The Petty Cash account is \$200 and is to be reconciled monthly and used only with the prior authorization of the Operations Manager and/or the users supervisor. A petty cash record will be maintained at all times.

B. Credit and Debit Cards:

One DREAMS credit card and one DREAMS debit card are kept in the locked file cabinet in the Operations Manager's office. No card is released without the card use log being completed. Upon return of the card, the log is updated and receipts attached to expense reports are submitted.

The Operations Manager checks the bank account online daily and immediately investigates and reports any unapproved credit or debit card activity.

Employees are to return all debit or credit cards by the end of the business day and are not to take them home with them over the weekend unless given prior permission to do so.

C. Segregation of Duties:

Due to the extremely small number of management staff at this time, the Operations Manager and the Executive Director act as oversight for each other in all fiscal management, involving either the Executive Committee or the entire Board of Directors when prudent. The Executive Director reviews all invoices and signs checks after the Operations Manager has prepared them. Payroll is reviewed and approved by the Executive Director before the Operations Manager processes. Expenditures are discussed by the Operations Manager and the Executive Director before being made.

D. Conflict of Interest:

Each member of the Board of Directors is required to sign a conflict of interest agreement and are advised to inform DREAMS immediately of any financial conflict that may arise. Signed forms are kept on file at DREAMS.

E. General Security:

- Blank and voided checks are stored in a locked file cabinet in the locked Operations Manager's office. The Operations Manager's office uses a different key than all other doors in the building except the storage closet near the door leading from Phase I to Phase II of the building. That unique key is not distributed or loaned to anyone except the Operations Manager, the Executive Director and the Program Director.
- All accounting software is password protected as are all financial websites such as banks and investment institutions. No one has access to the login names and passwords other than the Operations Manager and the Executive Director. This information is stored in a password protected spreadsheet shared only to the Operations Manager and the Executive Director.
- An annual external audit is performed and at which time, fiscal policies, procedures and internal controls are verified as having been adhered to in the past fiscal year. Auditor may make recommendations as to how to increase the security of the organization at the time of audit and will present such findings to the Board of Directors.
- The building is secured with an alarm. The code to the alarm is never given to anyone who is not employed by DREAMS unless approved by the Executive Director. When employees separate from DREAMS, the code is changed.
- The Operations Manager retains keys to all locks inside and outside of the building. When copies of keys are distributed, a signed form is maintained on file. Form is updated upon return of key(s).
- An Emergency Succession Form containing all pertinent information required in the case of management absence is kept on file for the Board Chair's use upon his/her discretion. This form is updated as needed and

retained on the DREAMS Dropbox share drive in the folder titled “Board of Directors.”