

# Upper Peninsula Land Conservancy

## Policy 6B: Financial Records

Board Approved: 14 March 2017

### Introduction

The financial management and control practices of the Upper Peninsula Land Conservancy (UPLC) will conform to Generally Accepted Accounting Principles (GAAP: see appendix B), adhere to the UPLC Statement of Standards and Practices and the UPLC Conflicts Policy, and meet or exceed the Land Trust Alliance Standards and Practices for Financial and Asset Management (Standard 6).

The purpose of this document is to establish policy guidance for UPLC financial management. Such guidance will help ensure that the Conservancy follows proper and consistent procedures in its annual budgeting, the maintenance of financial records, the preparation of financial statements and reporting, conducting the annual review and audit, implementing internal controls for handling funds, and the investment and management of financial assets. Adherence to this policy will also help ensure that the financial management practices of the Conservancy are concurrently transparent and compliant with all applicable standards, while remaining in form and force through any future organizational change.

### Roles and Responsibilities

The UPLC By-Laws as well as the recorded resolutions and decisions of the Board of Directors, authorize the following roles and responsibilities for the applicable officers, board committees and staff of UPLC:

**President.** As the Chief Executive Officer of the Corporation, the President will perform the duties normally attendant upon such an officer, and have primary responsibility for the monetary and financial affairs of the Corporation.

**Treasurer.** The Treasurer will:

- have charge of, and be responsible for, all funds and securities of the Corporation;
- supervise the disbursement of monies of the Corporation;
- make available UPLC's books of account and records to any of the Directors of the Corporation at the office of the Corporation, where such books are kept;
- render a statement of the condition of the finances of the Corporation at all regular meetings of the Board; and,
- compile, file, and track all external financial reporting, including the preparation of quarterly tax reports, and signing as required;
- prepare internal and board financial reports;
- in general, perform all the duties incident to the Office of Treasurer, and such other duties as from time to time may be assigned by the Board or by any committee authorized to do so.

**Finance & Audit Committee.** The committee shall assist with the construction of an annual budget and shall conduct an annual audit of the finances of the Conservancy. See appendix A for greater details of the responsibilities of this committee.

**Executive Director.** The Executive Director will supervise the administration of the financial affairs of the Conservancy, subject to the general supervision and oversight of the President, Treasurer, and Finance & Audit Committee. Additionally, the Executive Director is responsible for:

- overall coordination/review of all accounting/reporting functions;
- preparation, board approval, and submission of annual outside audit and federal and state tax documents;
- budget development, including both UPLC's annual budget and revisions, as well as all outside grant budgets and revisions;
- staff compensation recommendations to the Executive Committee and Board of Directors;
- various special financial requirements, as requested by the Board of Directors or required by authorized outside agency.

**General.** All checks, drafts, notes, bonds, acceptances, deeds, leases, contracts, and all other documents and instruments will be signed, executed, and delivered by the Executive Director or any member of the UPLC staff or Board of Directors who has signatory authority on the account or document in question, and in compliance with this policy.

### **Annual Budget**

**General.** UPLC's fiscal year runs from January 1 to December 31. Working with the Treasurer and Finance and Audit Committee, the Executive Director is responsible for preparing a proposed annual budget in accordance with the current strategic plan for submission to the Board of Directors for its approval. Approval of the proposed budget by the Board of Directors takes place at its December meeting prior to the beginning of each fiscal year.

### **Components.**

- Budget revenue figures are derived from projected funding sources, including individual, Board, and corporate donors, investment income, grant receipts, timber harvests, sale of trade lands, and other miscellaneous sources.
- Budget expense figures are derived from personnel and administrative cost projections, development (fund-raising) expenses in accordance with the current UPLC fund-raising plans, and program costs related to communication and publicity, land conservation, public policy, natural resources protection, and outreach.
- Unless specifically authorized by the Board of Directors, annual budgets will be balanced, with either a neutral outcome or minimal gain in any given fiscal year. A deficit budget for any fiscal year will only be approved by the Board of Directors after careful review and only under extraordinary circumstances. The board resolution approving a deficit budget will document the Board of Director's

justification for the planned loss and its approval to expend UPLC reserves to meet expense obligations for the fiscal year.

### **Annual Budget Schedule and Reporting.**

**September:** Based on UPLC strategic and development plans, current year revenues and expenditures, staff and board input, and any other known variables that may influence anticipated revenues or expenses, the Executive Director, Treasurer and Executive Committee (collectively, an *ad hoc* budget committee) prepares a proposed budget for the next fiscal year, presenting it for review by the Finance and Audit Committee.

**October:** Based on feedback from the Finance and Audit Committee, and as additional revenue/expense data are derived, the budget committee modifies the preliminary budget.

**November:**

- The *ad hoc* budget committee finalizes draft budget for final review by Finance and Audit Committee.
- Finance and Audit Committee reviews and approves budget for consideration by the UPLC Board of Directors at its December meeting.

**January to August:** At any meeting of the Finance and Audit or Executive Committees, or the Board of Directors, the Executive Director and/or Treasurer provides a current operating results report that presents the annual budget by category, projected results based on 12-month proration at the time of the report, actual results to-date, and explanation for any significant variance from budget. Changes to the approved annual budget figures are not authorized, although the Board may approve the addition of non-budgeted revenue or expense categories that occur during the fiscal year.

### **Fund Accounts.**

UPLC maintains a variety of monetary accounts to efficiently receive and distribute funds to meet short-term operating requirements, while investing reserves in financial instruments that emphasize preservation of capital. Checking accounts are only maintained at FDIC insured banks.

### **Operating Funds.**

- **Petty Cash.** The Executive Director, Treasurer, and staff are provided with debit cards for day-to-day expenses of less than \$100. All expenditures via debit cards are to be documented in a financial log book maintained in the UPLC office. These expenditures are to be for budgeted items only. Non-budgeted expenditures require Board approval.
- **Checking.** The checking/debit account is the main source of funds for day-to-day operations of UPLC. It is the initial repository for all receipts, and used to pay all operating costs. The Executive Director through the Treasurer is responsible for ensuring adequate funds are in the account to meet anticipated expenses, and is

authorized to transfer funds into/out of the account (see section 6 below) to meet financial obligations or to balance operating fund accounts. Under normal operating conditions, funds in the checking account will not exceed \$20,000.

### **Investment accounts**

In accordance with the UPLC investment policy and funds allocations approved by the Board of Directors, non-operational reserves and selected Board directed or donor restricted funds are invested in individual equities, mutual funds or fixed income securities held in the UPLC brokerage accounts.

These accounts are utilized to earn interest or dividends on Conservancy funds that are not held in the checking accounts. These accounts are currently held at Edward Jones, Thrivent Financial, and mBank; each has an office in Marquette. Funds held in these accounts include excess operating monies, monies donated specifically for land acquisition, and stewardship donations (the later categorized as the Forever Fund). All investment accounts are specifically regulated by the Forever Fund policy. The Treasurer shall maintain records of these investments and regularly report to the Board on their status.

### **Financial Records and Payroll**

**General.** All financial records are maintained on a cash basis in accordance with generally accepted accounting principles, applicable state and federal requirements, and pertinent procedures related to specific grants and contracts. UPLC uses QuickBooks as its basic financial record keeping system, for both operational financial transaction administration and investment management. Additional investment records are kept on spreadsheets not linked to Quickbooks. The record keeping system is designed to allow proper allocation of revenue and expenses among various programs and grant sources, and to provide the staff and board with timely financial results. QuickBooks data files are backed up daily using an off-site, web-based (cloud) system.

**Payroll.** Based on recommendations from the Executive Director, Treasurer, and Executive Committee, the salary/pay rates for all employees are approved by the Executive Committee of the Board, with individual salary decisions provided in writing by the Executive Director to each employee.

- Based on salary decisions of the Executive Committee and any change to federal or state withholding requirements, the UPLC Treasurer will provide the Executive Director with a payroll report, detailing each employee's withholding schedule, including custodial account contributions, FICA, Medicare, federal, and state tax withholding amounts, and net salary payments.
- Based on the most recent payroll report, the Treasurer will execute any required changes to salary direct deposits made to employee bank accounts, and provide notice of these changes to each employee.
- Federal payroll withholding reports and deposits are made quarterly by the Treasurer. State payroll withholding reports and payments are made on an annual basis, in January of each year. State Unemployment Insurance reports and payments are made quarterly, on the same schedule as the Federal payroll payments. Where possible, these reports will be filed electronically.

- The Treasurer will prepare all Federal W-2, W-3, and 1099 tax forms for distribution to employees and contractors prior to the January 31 deadline each year.

### **Annual Financial Audit, Other Reports, and Statements**

**General.** An annual audit is conducted by an internal audit committee when UPLC revenues are less than \$500,000 per year. An outside CPA firm shall conduct an external audit, in accordance with OMB circular A-133 (Audits of States, Local Governments, and Non-Profit Organizations) and other pertinent standards when revenues exceed \$500,000 per year. The Treasurer and Executive Director shall be responsible for collecting and presenting all pertinent financial and other data necessary to conduct the audit.

The auditor provides the initial audit draft to the UPLC Finance and Audit Committee and/or Executive Committee for review, comment, revision, and approval. Approval of the audit requires a majority vote of the Board of Directors. Based on approved audit results, the CPA prepares IRS 990 and the state required audit document.

### **Procedures for Handling Funds**

**General.** The Executive Director is responsible for all day-to-day monetary transactions including: cash receipts, bill payments, entry of transactions into the financial logbook.

The Treasurer is responsible for payroll, coding/entry of all transactions into the QuickBooks accounting system, monthly reporting, and reconciliation of all financial accounts. Each member of the staff is provided with a bank debit card to efficiently procure needed materials for their work. Any use of the staff member's debit card requires the prior approval of the Executive Director, who ensures adequate funds are available and that the acquisition is in accordance with the approved budget. In addition, the Executive Director is authorized to:

- sign checks for budgeted operational expenditures up to \$2,000; approval of the Treasurer and two signatures are required on checks in amounts greater than \$2,000;
- execute debit payments up to \$1,000; with approval of Treasurer, execute larger debit payments to meet financial obligations;
- contingent on cash flow, sign checks for pre-approved grant-related expenditures that will be reimbursed through approved grant funding;
- approve budgeted operational expenditures up to 100% higher (i.e., double) the line item budget, but not to exceed \$4,000;
- with approval of the Treasurer, execute unbudgeted, urgent expenditures up to \$1,000;
- sign all operations contracts and documents (e.g., leases, vendor agreements, consultant agreements, etc.);

### **Board Approvals.**

Approval of the Board of Directors is required for:

- the expenditure of funds above the limits authorized for the Executive Director;
- the expenditure of any donor restricted or Board directed funds.

**Receipts.** Receipts, including all donations, are recorded in the financial logbook AND the donor database (if applicable). The Treasurer or designated staff-person shall make the appropriate entries into the QuickBooks system. Deposits are then made into the primary

operating checking account. A paper receipt shall be retained in the appropriate file cabinet. Cash receipts exceeding \$100 are deposited in the bank checking account on the same day as received.

**Invoices.** Invoices are received and paid by the Executive Director or staff not later than the invoice due date. Invoices may be paid by check, debit card, or electronic transfer, whichever is most appropriate. All invoice payments are recorded using the applicable QuickBooks expense category, with paper copy retained in the yearly financial records file.

**Credit Card Transactions.** The staff will show due diligence in protecting the privacy of credit card information, and will keep such data in a secure location. The Executive Director or designated staff will process any credit card transaction using the merchant banking card reader or PayPal, and record the transaction approval number on the transaction receipt upon completion of the individual transaction. Once the credit card batch is processed, the deposit will be posted into the UPLC checking account through entry in QuickBooks.

**Reconciliations.** Using reports provided by financial institutions, each month the Treasurer conducts a 100% reconciliation of all UPLC financial accounts, with any discrepancies immediately resolved during the conduct of the reconciliation. Copies of the checking account statements are filed in the appropriate cabinet.

## **Investment and Management of Financial Assets**

**General.** It is the policy of the Upper Peninsula Land Conservancy to invest its funds in a manner that will balance **investment** return with **security of principal**, while helping to meet the daily **cash flow** needs of the Conservancy.

**Objectives** - The primary objectives of the UPLC's investment activities shall be:

- 1. Preservation of capital** – Preservation of capital is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve capital in the overall portfolio. Minimization of risk is to be considered in all investment decisions.
- 2. Diversification** – Diversification is important for controlling risks within the portfolio. Investments will be diversified by asset type. No investment in the securities of any one company will exceed fifteen percent of the total portfolio of investments, including reserves held in money market funds. This provision also applies to investments in individual mutual funds.
- 3. Return on Investment** - The investment portfolio shall be designed to produce a return consistent with preservation of capital balanced with the need to maintain or increase the purchasing power of the assets.

**Investment Goals** – The investment goals are set forth in the Forever Fund document, attached to this policy as appendix C. The investment goals can be summarized as follows:

1. **Time horizon** – UPLC expects to continue in perpetuity, and thus defines the investment time horizon for the Forever Fund and non-operating reserves as long-term. Other funds are managed for shorter-term use.
2. **Constraints** – All assets shall be invested in readily marketable financial instruments limited to stocks, bonds, cash equivalents, or mutual funds that invest in like instruments. Every effort will be made to invest in corporations whose businesses and practices are consistent with the environmental goals of UPLC.
3. **Asset allocation** - UPLC shall hold investments within allocation ranges approved by the Board of Directors.

**Asset quality** – Acceptable asset qualities are as follows:

1. **Common stocks** – Publicly traded common stock that is listed on a major exchange, appropriate for the portfolio objectives.
2. **Convertible preferred stock and convertible bonds** – These instruments may be used as equity investments. Convertible preferred stock and convertible bonds must be investment grade or better. The common stock into which both may be converted must satisfy the standard specified for common stocks, above.
3. **Fixed-income securities** – The quality rating of bonds and notes must be Investment Grade. The portfolio will consist of only traditional principal and interest obligations (no derivatives) with maturities of seven years or less.
4. **Cash and equivalents** – The quality rating of commercial paper must be A-1, as rated by Standard & Poor's, P-1 as rated by Moody's, or better. The assets of any money market mutual funds must comply with this standard and/or the quality provisions for fixed income securities.

**Reporting requirements** – At the annual meeting, the Executive Director or the Treasurer shall provide the Board of Directors with an annual report of the specific investments held in the portfolio, all significant transaction details, a determination of the return of the investments for the year, and asset allocation. Any investment advisor acting on behalf of the UPLC will be required to provide regular reports containing this information.

**Delegation of authority to make investments** - Authority to manage the investment program is derived from the Board of Directors' investment policy implementation resolution and any subsequent amendments thereto. Management responsibility for the investment program is hereby delegated to the Treasurer and any independent investment advisor appointed by the Board of Directors, with oversight provided by the Finance & Audit Committee. The Board shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of UPLC. No person may engage in an investment transaction on behalf of UPLC except as provided under the terms of this policy and the procedures established by the Board of Directors.

**Prudence** - Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**Safekeeping** – All investments will be held in safekeeping by one or more financial institutions, as approved by the Board of Directors.

#### Appendices

- A. Finance and Audit Committee Charter
- B. GAAP explanation provided by the Land Trust Alliance
- C. Forever Fund policy document as adopted 7/16/2012

## **Appendix A**

### **Finance & Audit Committee Charter**

The Board of Directors of the UPLC hereby establishes a Finance & Audit Committee in accordance with the guidelines described below.

The Finance & Audit Committee shall meet at least twice annually, but more often if desired or necessary, in order to discharge its responsibilities. All meetings may be held in person or by telephone/Skype conference call. Unless otherwise authorized by the Board, the Finance & Audit Committee shall have no power to act on behalf of the Board, but shall present its recommendations to the Board of Directors for action. The members of the Finance & Audit Committee shall be persons serving on the Board of Directors who have no existing financial, family, or other personal ties to management of the organization. No staff members of the organization will be eligible to serve on the Finance & Audit Committee.

Member qualifications include:

1. A clear understanding of the role of the UPLC and its services.
2. Financial literacy/expertise (at a minimum, the ability to read and understand financial statements).
3. Courage to ask probing questions and to follow up for answers.
4. Ability to see the big picture.
5. A commitment to safeguard the organization and its assets.
6. A commitment that the organization will report fairly, accurately, and regularly on its activities and condition.

The Finance & Audit Committee's responsibilities shall include:

1. Recommending to the Board the selection of the audit firm to conduct an independent audit of the organization's financial statements.
2. Reviewing and recommending approval of the audit scope and fees, and any proposed involvement of the audit firm in activities other than the annual audit.
3. Ensuring a direct line of communications with the organization's auditor.
4. Providing oversight of management's performance with respect to required and recommended financial responsibilities and disclosure.
5. Consider and review, with management and the auditor, the adequacy of the organization's risk management methodology and internal controls, including computerized information system controls and security.
6. Reviewing the adequacy of financial reports provided to the Board and making recommendations for their improvement.
7. Reviewing and addressing the management letter and auditor's comments.
8. Reviewing any serious difficulties or disputes with management encountered during the course of the audits.
9. Reviewing other matters related to the conduct of the audit that are to be communicated to the Board under generally accepted auditing standards.
10. Reviewing published documents containing the organization's financial statements and considering whether the information contained in these documents is consistent with the information contained in the financial statements.
11. Promptly reporting any such actions to the Executive Committee.
12. Making recommendations to the Board based on the Committee's review activities.

Members of the Finance & Audit Committee shall be appointed by the Board and serve until replaced.

## **Appendix B**

## **GAAP**

**Generally accepted accounting principles (GAAP)** are the accounting rules used to prepare financial statements for publicly traded companies and many private companies in the United States.

In the United States, as well as other countries practicing English common law system, the government does not set accounting standards, in the belief that the private sector has better knowledge and resources. The GAAP is not written in law, although the SEC requires that it be followed in financial reporting by publicly traded companies.

### **Conceptual frame work**

GAAP has four basic principles. The historical cost principle requires companies to account and report based on acquisition costs rather than fair market value for most assets and liabilities. The revenue recognition principle requires to record when revenue is realized or realizable and earned, not when cash is received. The way of accounting is called accrual basis accounting. The third principle is the matching principle. Expenses have to be matched with revenues as long as it is reasonable doing so. The last principle is called the full disclosure principle. Amount and kinds of information disclosed should be decided based on trade-off analysis as larger amount of information costs more to prepare and use it. Information disclosed should be enough to make judgement while keeping costs reasonable.

## Appendix C

# UPPER PENINSULA LAND CONSERVANCY POLICY FOR INVESTMENT AND MANAGEMENT OF ITS FOREVER FUND

Board Approved 7/16/2012

### Introduction

The Upper Peninsula Land Conservancy (the Conservancy) exists to protect lands having a variety of conservation values. The Conservancy accomplishes its mission through three primary activities:

- Acquiring and managing important conservation lands;
- Holding conservation easements on lands owned by others and performing stewardship monitoring on these properties to insure that the conservation values are maintained;
- Education of individuals and the general public on various means available to them through the Conservancy for protection of conservation lands.

Funding to support these activities comes from several sources, including one-time or regular donations, capital fundraising drives, stewardship donations, and income from investments.

All land transactions the Conservancy undertakes, whether easements or lands to be owned in fee by the Conservancy, involve costs for professional services, administrative expenses, and staff time to develop the agreements between land owners or donors and the Conservancy. These are *one-time costs* and are paid from general operating funds.

In addition, the Conservancy must provide management *in perpetuity* for both easements and fee-owned lands held by the Conservancy as preserves and reserves. This long-term management is called *stewardship*, meaning that the Conservancy must look after the lands to ensure that they are preserved in the intended condition. Some of the costs involved in providing stewardship include site visits for annual monitoring, insurance premiums, possible enforcement actions, signage, and documentation of each site's condition.

The Conservancy must secure the funds needed to conduct this eternal stewardship and then manage those funds wisely to ensure it can pay all costs that will be incurred in managing a property forever.

As part of the Conservancy's overall financial management plan, it has established a Forever Fund (hereinafter called the Fund). This policy document outlines how the Conservancy will invest and manage its Forever Fund assets and the objectives it seeks to achieve.

### Definition

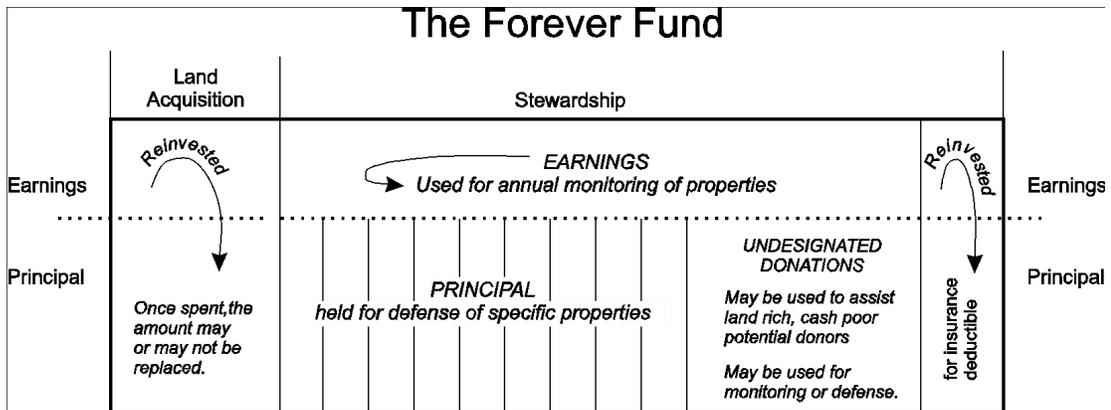
The Forever Fund is money donated to the Conservancy for one of two purposes 1) *the eternal stewardship of conservation lands and easements* or 2) *conservation land acquisition*. The donor may specify the purpose. If not specified by the donor, money contributed to the Forever Fund will be used for stewardship—monitoring and/or defense.

The money in the Forever Fund is segregated from operating funds. The Forever Fund is designed to allow conservation-minded individuals *with* or *without* conservancy land to support the work of the Conservancy through donations.

### Management of the Fund:

1. Donations to the Forever Fund may be designated for stewardship which includes defense and monitoring of conservation land, or for the acquisition of conservation land.

2. Contributions not specifically designated for land acquisition will be placed in the stewardship portion of the Fund. Only donations specified for land acquisition will be placed in the land acquisition portion of the Fund
3. For investment purposes, the Fund will be treated as a single entity, but earnings distributions will be apportioned based on the percentage of the Fund held in the distinct categories of stewardship and acquisition.



4. Within the Stewardship portion, an amount needed to fulfill the insurance deductible for at least one claim will be satisfied first, thereafter stewardship funds (principal amount) will be held for defense while stewardship earnings will be used for annual monitoring.
5. Contributions to the Fund can come from a variety of sources, including gifts from individuals and foundations, grants, and bequests. There is no minimum or maximum size for donations to the Fund.
6. The Forever Fund is a restricted (segregated) Fund; money in the fund shall be used specifically for only two purposes--funding the stewardship of easements and preserves on conservation lands and funding the acquisition of conservation land.
7. Ordinary distributions
  - a. Forever Fund *earnings* will be apportioned between the stewardship and land acquisition portions of the fund based on the principal amounts designated for each. Earnings from the stewardship portion shall be used only for stewardship costs that are part of managing a property forever, such as, but not limited to, insurance, site monitoring, signage, and enforcement actions. Forever Fund *earnings* specified for land acquisition shall be used solely for the acquisition of conservation lands as opportunities arise.
  - b. Ordinary distributions may be taken from the Fund as monies become available and when an appropriate need is identified.
8. Extraordinary distributions
  - a. Generally, the principal shall remain in both the stewardship and land acquisition portions of the Fund and shall not be liquidated.
  - b. However, extraordinary expenses associated with the enforcement and/or legal costs of defending an easement or preserve may be taken from the stewardship portion of the principal. At such time, by a 2/3 (or greater) vote of the Board of Directors, part of the principal may be taken as a distribution. Any such extraordinary distribution must be accompanied by a plan to expeditiously replenish the funds in the account.

- c. The land acquisition portion of the principal may be taken as an extraordinary distribution for the acquisition of conservation land with a 2/3 (or greater) vote of the Board of Directors. No replenishment plan is required.
9. Contributions will be invested as they are received.
  10. A professional investment advisor will be utilized to manage any invested portions of the Fund.

**Investment objectives**

1. Preserve capital while achieving returns greater than the rate of inflation;
2. Take a conservative approach in the amount of risk to which funds in the portfolio are subjected;
3. Utilize diversified portfolios that provide investments in environmentally sustainable and socially responsible companies as much as possible, while continuing to achieve objectives one and two.
4. Diversify financial assets across asset classes according to the following guide:

ASSET CLASS	TARGET ALLOCATION (%)	ALLOCATION RANGE (%)
Equities	50	30-80
Fixed Income	40	20-50
Cash	10	0-20
TOTAL	100	