

The American Ceramic Society



APPENDIX 4: TREASURY GUIDELINES

TREASURY GUIDELINES FOR
THE AMERICAN CERAMIC SOCIETY
(Update approved by Board of Directors December 14, 2020)

PURPOSE

To assist the Board of Directors (BOD), the Executive Committee, and the Treasurer in the Society's financial management including revenues, expenses, and assets in order to serve the needs of the membership, to meet the goals and objectives of the Society's strategic plan, and to provide direction for long-term financial viability.

These guidelines are maintained by the Finance Committee.

STRUCTURE

1. The Long Range Financial Plan provides a general, continuing framework for guiding the financial operational and investment activities of the Society and monitoring performance against the annual budget.
2. The Investment Guidelines provide the framework for investing Society funds.
3. The Operational Business and Budget Planning provides the framework for constructing annual budgets to achieve the long-range goal.
4. The New Project Guidelines describe the procedures involved with the submission and tracking of projects that require BOD approval.
5. The Schedules and Approvals are defined to assure understanding and continuity of responsibilities.

I. LONG RANGE FINANCIAL PLAN

Financial Reserves Objective

The fundamental purpose of the Society's financial policy and guidelines is to assure long-term viability. The ultimate financial goal is to achieve and maintain sufficient, liquid reserves to preserve the Society in times of economic or financial disaster. The liquid reserves target, at any point in time, is **six months** of the current annual expense budget, with the target to be reconfirmed by the BOD annually.

Long Range Forecast

Long-range forecasts shall be developed each year, as part of the annual budget approval process. The forecasts should be for at least three years in duration. Along with the forecasts, the major assumptions and the major variables should be presented. (The format should follow the budget format).

Quantitative Criteria for monitoring Operating Performance

The fundamental, continuous metric of operating performance shall be, **current ratio** ≥ 1.0 . A current ratio of 1.0 means that, if the Society were to close its doors, its liquid assets would be sufficient to pay off its bills and liabilities.

Monthly, ACerS staff will prepare a summary dashboard report to be sent to the Finance and Executive Committees. This report will include status updates of key performance indicators against the approved annual business plan and budget. Finance and Executive Committee members may bring forth any matters that require additional discussion to the attention of the Treasurer. The Treasurer, on behalf of the Finance and/or Executive Committee, may call a special meeting of the Board of Directors as needed.

Quarterly, ACerS staff will prepare a budget report and narrative to be sent to the Finance and Executive Committee. This report will include financial results against the approved annual business plan and

budget with an explanation for significant variances. Finance and Executive Committee members may bring forth any matters that require additional discussion to the attention of the Treasurer. The Treasurer, on behalf of the Finance and/or Executive Committee, may call a special meeting of the Board of Directors as needed.

Annually, the BOD is responsible to review the preliminary year-end financial reports as provided by the Staff in January, and the official audit report available at the Spring meeting. The BOD should compare actual results against the approved plans and budget and to evaluate key indicators such as current ratio and liquid reserves target and take actions, as appropriate, relative to evaluation of the executive director's performance and Society programs that are not meeting their objectives.

Annual Audit

Full audits of the Society's financial records will be conducted annually and the auditor will be asked for a "management letter" with recommendations for improvement. Each year, the Treasurer will recommend to the BOD, approval of the auditor's report and appointment of an audit firm for the next fiscal year. On a frequency of no less than five years, the Finance Committee will review the performance of the external auditors and, as appropriate, make subsequent recommendations to the Executive Committee and BOD. If necessary, the Director of Finance and Operations will issue a formal Request for Proposal, resulting in evaluation of at least three audit firms and recommendations of one firm to the Finance Committee.

The Treasurer will speak privately with the audit firm and will receive the results of each annual audit prior to the Finance Committee meeting. The Finance Committee will meet to review the auditing results and, as appropriate, will make subsequent recommendations to the Executive Committee and BOD.

Divisions, Classes and Sections

The administration, purpose, goals of Divisions, Sections and Classes is spelled out in the Constitution, Rules & Bylaws of the Society. These documents are to be referred to in matters related to these activities. Rules and procedures specific to a Division, Section or Class, is maintained by the respective organization.

Financial Viability of the Society

The Finance Committee shall be responsible for monitoring Society programs on an on-going basis and for making recommendations that can assure long-term financial viability. Resultant recommendations to the BOD should include, but not be limited to:

- Trends in revenue and expenses of Society programs that can impact operating results.
- Contingency plans for "worst case" forecasts, or disaster plans for catastrophes.
- Potential new initiatives to enhance revenue and to reduce expenses.

II. INVESTMENT POLICY

The fundamental purpose of creating and managing Society reserve funds and funds for special purposes is to achieve the long-range reserves target of 12 months of operating expenses and to assure continuous financial viability. The Finance Committee is responsible for assuring adherence to the Society Investment Guidelines and for making recommendations to the Executive Committee and to the BOD, as appropriate, based on application of the policy.

III. BUSINESS AND BUDGET PLANNING

Annual Business Plan

Each year, the Staff will develop a zero-based business plan for the following year, based on the Society's strategic goals. The plan will start with business objectives, tied to the strategic goals, and designed to

achieve or exceed them; and will end with specific business tactics that define revenue and expenses, leading directly to the annual budget.

The process of developing the business plan, normally starting in September, will include coordinating plans and needs with Division, Class and Section Leaders to assure their input and participation in the planning.

Annual Budget

The Society follows accounting principles generally accepted in the United States for not-for-profit corporations. The finances are managed on an accrual basis, using an activity-based system that assigns revenue and expenses to unique business activities.

The Executive Committee will develop the annual budget with the Director of the Society. The annual budget should be consistent with the annual business plan. The Finance Committee will review the budget and provide input. The BOD shall approve the annual business plan and budget no later than January of the current year.

The salary and benefits section of the budget is developed through Board and Executive Committee oversight, as follows:

- The Executive Director recommends the annual salary administration plan to the Executive Committee.
- The Executive Committee reports to the BOD, the derivation of the subsequent year salary and benefits budget.
- The BOD approves major changes in the employee benefits plan, as submitted.
- The BOD approves the Executive Director's contract annually, in accordance with the Bylaws.

Dividends and interest earned by the investment portfolio of designated Society reserves will remain in the portfolio and will not be treated as operating revenue. Earnings from special funds, e.g., award funds, will be treated as specified in the guidelines approved for each fund.

Cash Management

In the event of a projected cash flow shortage needed for operations, the Society has three options available:

1. Investment Fund (Withdrawals): this is to be used for planned cash flow shortages that are identified in the annual business plan or anticipated cash flow shortages during the budget year. The following process is to be used:
 - a. When a withdrawal from the Investment Funds is anticipated, the President and the Treasurer shall be notified of the withdrawal and shall approve the withdrawal in writing. Notification of anticipated withdrawals can be done by phone call or email and the approval must be confirmed in writing by email or other means.
 - b. The written confirmation from the President and the Treasurer shall be forwarded to the Executive Director and the Director of Finance and Operations for their approval.
 - c. The actual withdrawal will require the signatures of both the Executive Director and the Director of Finance and Operations, and the withdrawal can only be deposited in Society banking accounts.

2. Investment Fund (Margin Loan): this is to be used for planned short-term cash flow shortages that are identified in the annual business plan or anticipated short-term cash flow shortages during the budget year. The following process is to be used:
 - a. The President or the Treasurer shall be notified and shall approve the margin loan in writing. Notification of anticipated margin loan can be done by phone call or email and the approval must be confirmed in writing by email or other means.
 - b. The written confirmation from the President or the Treasurer shall be forwarded to the Executive Director and the Director of Finance and Operations for their approval.
 - c. Loan approval will require the signatures of both the Executive Director and the Director of Finance and Operations, and the loan proceeds can only be deposited in Society banking accounts.
 - d. Execution of the Margin Loan shall be reported to the BOD with an explanation of the reason for the loan.

3. Line of Credit: this is to be used for unanticipated, short-term cash flow shortages during the budget year. The following process is to be used:
 - a. The President or the Treasurer shall be notified and shall approve the access in writing. Notification of anticipated access can be done by phone call or email and the approval must be confirmed in writing by email or other means.
 - b. The written confirmation from the President or the Treasurer shall be forwarded to the Executive Director and the Director of Finance and Operations for their approval.
 - c. Access will require the signatures of both the Executive Director and the Director of Finance and Operations, and the withdrawal can only be deposited in Society banking accounts.
 - d. Access to the Line of Credit shall be reported to the BOD with an explanation of the reason for the access.

Capital Expenditures

The Society's capital expenses shall be managed as conservatively as possible, within generally accepted accounting practices in the United States, meaning:

- Where appropriate, purchases will be expensed to the extent possible, rather than capitalized.
- Capital expenditures will be depreciated or amortized over their useful economic life.

The capital expenditures with justification should be reviewed by the Treasurer.

The Staff will prepare an annual capital budget for BOD approval, in conjunction with the annual business plan and budget, for furniture, equipment, and any other items that cannot reasonably be expensed.

Funds With and Without Donor Restrictions

The administration, purpose, source and goals of net asset funds is spelled out in the Constitution Procedures Manual of the Society.

IV. NEW PROJECT GUIDELINES

Any new program or project that will require Society resources (financial or staff) either outside of the current year's operating budget, or beyond the normal business activity in future years, shall be developed as a proposal for BOD approval. The proposal shall be in the form of a business plan that clearly defines the scope, purpose, implementation and resources required, including long-range projections of revenue, expenses and operating contributions.

Normally, the proposal process will include staff support for developing the required sections and, especially, the financial information and projections. In this process, the Staff is to assure that all affected and involved Society units are consulted and given the opportunity to evaluate the costs and benefits and provide input accordingly.

The Society expects the payback period for any new programs to be less than two to five years, with five years being the maximum payback period for long-term programs. If the annual budget is a deficit, or if key financial targets (current ratio, reserves ratio) are deficient, the BOD may seek payback within the same fiscal year as expenditures will be incurred.

Approved programs will become part of the normal, annual business and budget planning process. As such their results will be reported to, and monitored by, the Finance Committee, Executive Committee, and BOD as appropriate for the level of investment and size of program.

V. SCHEDULES AND APPROVALS

January BOD Meeting

- Review prior year, preliminary financial results.
- Approve Executive Director's contract

Spring Finance Committee Meeting

- Review and recommend approval of previous year's audit reports
- Review performance of audit firm and recommend firm for succeeding year
- Review investment portfolio performance

Spring Executive Committee/Board Meeting

- Review first quarter results.
- Approve audit reports from previous year
- Approve audit firm for succeeding year
- Receive report of operating funds transfer to designated reserve fund
- Reconfirm Board reserves target

Summer Finance Committee Meeting

- Review and recommend approval of previous year's IRS tax filing reports

Fall Executive Committee/Board Meeting

- Review year-to-date results
- Review preliminary (high level) year-end results
- Review year-to-date investment performance
- Confirm Strategic Goals

Annual Business Meeting

- Treasurer's report to Members on Society's financial health

December Finance Committee Meeting

- Review and recommend approval of business plan and budget for succeeding year
- Review investment plan performance with Fund Manager
- Recommend Fund Manager for succeeding year

- Review Treasury and Investment Guidelines

December Executive Committee Meeting

- Review year-to-date financial results and balance of year forecast
- Review business plan and budget for succeeding year

December Virtual BOD Meeting

- Review and approve business plan and budget for subsequent year.
- Approve salary and benefits budget for subsequent year.