



## **Financial Procedures and Best Practices for Lyrical Opera Theater (A 501(c)(3) Non-Profit)**

### **1. Financial Oversight and Governance**

- **Board Responsibility:** The Board of Directors has ultimate responsibility for financial oversight, ensuring sound financial management in compliance with non-profit regulations.
- **Finance Committee:** Establish a Finance Committee, chaired by a board member, to oversee budgeting, financial reporting, audits, and compliance with policies. This committee reports regularly to the board.
- **Separation of Duties:** To minimize risk of fraud, assign distinct roles for authorization, recordkeeping, and reconciliation to different individuals within the organization.

### **2. Budgeting**

- **Annual Budget Creation:** The Executive Director and Finance Committee collaborate to develop an annual budget that aligns with the strategic goals of the organization. This budget is approved by the Board of Directors.
- **Regular Review:** The budget should be reviewed quarterly, comparing actual expenditures to projections, and adjusted as necessary with board approval.
- **Contingency Planning:** Include a contingency line item (e.g., 5-10% of the annual budget) to cover unforeseen expenses or income shortfalls.

### **3. Income and Revenue Procedures**

- **Grant Management:** Establish a clear process for tracking restricted and unrestricted funds from grants. Ensure compliance with grant agreements, reporting requirements, and timelines.
- **Donation Tracking:** Implement a donor management system that tracks donations, issues receipts for tax-deductible contributions, and ensures proper acknowledgment of donors.
- **Earned Income:** For income from ticket sales, merchandise, and program fees, establish systems that allow transparent and accurate tracking, using secure platforms for sales.
- **Banking Relationships:** Maintain a relationship with a reputable bank. Ensure that accounts are in the name of the organization and not in any individual's name.

### **4. Expense Management**

- **Expense Authorization:** Require pre-approval from the Executive Director or Finance Committee for significant expenditures over \$1,000.
- **Expense Documentation:** Ensure all expenses are supported by invoices, receipts, or contracts, and appropriately coded to the relevant budget line.
- **Vendor Selection:** Use a competitive bidding process for larger contracts to ensure cost-effectiveness and transparency.
- **Reimbursement Policy:** Establish a clear and documented policy for reimbursement of expenses incurred by staff or board members, requiring original receipts and explanations.

## **5. Internal Controls**

- **Check and Payment Authorization:** Require dual signatures for checks or electronic transfers above \$1,500 with one being from the Executive Director and the other from a board officer.
- **Petty Cash:** Maintain a petty cash fund for minor operational expenses, with strict limits on individual expenditures and regular reconciliation.
- **Quarterly Reconciliations:** Perform quarterly bank reconciliations by the treasurer. Review reconciliation reports at each board meeting. Books and spreadsheets are then taken to LOT accountants who generate profit/loss reports and balance sheets.

## **6. Financial Reporting**

- **Quarterly Financial Statements:** Provide quarterly financial statements, including balance sheets and income/expense reports, to the Finance Committee for review.
- **Quarterly Reports to the Board:** Present quarterly financial reports to the Board of Directors, highlighting any major variances from the budget and discussing corrective actions.
- **Annual Audit or Review:** Engage an independent CPA to conduct an annual audit or financial review, based on the size of the organization and donor requirements. The results should be presented to the full board.

## **7. Compliance and Legal**

- **IRS Filings:** File the annual IRS Form 990-EZ by the deadline, ensuring accuracy in reporting income, expenses, and compensation for key personnel.
- **State Filings:** Comply with all state registration requirements for charitable organizations, including annual reports.
- **Document Retention:** Maintain financial records, including bank statements, invoices, contracts, and tax returns, for at least seven years, following IRS guidelines.

## **8. Fund Balance and Reserves**

- **Operating Reserves:** Maintain an operating reserve of 3-6 months of average expenses to safeguard against financial instability.
- **Restricted vs. Unrestricted Funds:** Clearly distinguish between restricted funds (for specific purposes like grants) and unrestricted funds in financial statements and budget planning.

## **9. Risk Management**

- **Insurance:** Maintain adequate insurance coverage, including general liability, directors and officers (D&O) insurance.
- **Financial Safeguards:** Implement policies that reduce financial risk, such as background checks for staff handling finances and cyber security measures for financial data.
- **Fraud Prevention:** Encourage a culture of transparency and set up a whistleblower policy, providing a confidential way for staff or volunteers to report suspected fraud.

## **10. Best Practices for Transparency and Communication**

- **Public Availability:** Make financial statements and the IRS Form 990-EZ publicly available upon request to demonstrate transparency to donors, patrons, and grantors.
- **Donor Communication:** Provide clear, accurate reports to donors regarding the use of their contributions, especially for restricted funds.
- **Regular Training:** Offer training on financial best practices to board members and key staff to ensure ongoing understanding of fiscal responsibilities.

By adhering to these financial procedures and best practices, Lyrical Opera Theater can maintain financial health, transparency, and trust with its stakeholders, ensuring long-term sustainability and success.