

Clan MacTavish USA, Inc. (CMU)

Fiscal Policy

This fiscal policy is being implemented within CMU in compliance with The Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley (SOX.)) As this or any other statutory regulations for Not For Profit Organizations evolve, the fiscal policy shall be similarly and promptly amended to ensure legal compliance.

Notations with an asterisk and italics mean that the word or phrase appears in the definition section at the end of the fiscal policy.

1.0 CMU's Treasurer shall maintain a ***Double Entry General Ledger*** to record every fiscal organizational transaction. Specific account records, providing a sufficient *audit trail*,* shall be maintained for all transactions. The Treasurer shall oversee all *fiscal transactions**, and shall present a *Balance Sheet** to the Board of Directors (Board) at each year's Annual General Meeting (AGM). The Board will establish an accounting method, to be consistently applied, to maintain required records.

2.0 Budgets shall be prepared by various Officers for their various annual functions. All Budgets will require Board approval before their annual funding. All Budgets will have sufficient detail to adequately disclose income and expenditures. For example, all Budgets will itemize both ongoing and non-recurring activities. Any budgeted funds not spent in a given year will be available for the subsequent year's Budget in addition to normal Board annually authorized funding. All Officers will provide an annual income and expense report for Board inspection at the AGM. The Board will create an ***Unforeseen Contingency Account*** (UCA) for unanticipated/non-budgeted expenditures. The Treasurer shall approve and fund all UCA expenditures. Thus, any Officer needing UCA funding shall submit a written request for the Treasurer's approval, after which the Treasurer shall disburse the requested UCA funds to the appropriate Officer. Simultaneously, the Treasurer shall record the outlay for annual Board scrutiny.

3.0 All CMU account checks will require two signatures, neither of which may come from *related parties**. In addition, to avoid the appearance of a *conflict of interest**, any persons residing within the same domicile at any time during their office's term may not sign checks.

4.0 No member, possessing fiscal account *oversight** responsibility, may hold more than ONE elected or appointed office simultaneously. Fiscal oversight responsibilities include, but are not limited to, fiscal maintenance requirements. Should any member hold more than one office simultaneously, that member shall within 10 days choose one of the following:

- ❖ Maintain more than one office but yield all fiscal oversight responsibilities.
- ❖ Relinquish all but one office, at which point the office holder will limit his/her fiscal management responsibilities to those of his/her chosen office. Should the

office holder vacate one or more offices, the vacated office(s) will be filled by usual methods within 30 days of vacancy.

This policy does NOT prohibit Commissioners/Conveners from receiving or sending monies for either membership or retail sales.

5.0 The Board shall create an *Audit Committee**. This Committee shall contain FIVE members, three of which shall be from the *General Membership**, and two of which shall be Board members. One Board member shall serve a one year term, and the other a two year term. General Membership committee members shall be nominated by the General Membership to the Board and elected by 2/3 vote of the Board for a term of two years. All candidates must be members in good standing. The methods of nomination and election to be determined by the Board. The Audit Committee's Chairperson shall be a General Member chosen by the Audit Committee in accordance to the Bylaws of Clan MacTavish USA, Inc. The Chairperson shall be an *audit financial expert**.

6.0 All materials owned by CMU will be immediately surrendered upon Board demand. Failure to do so may result in legal action.

7.0 Funds used to operate CMU may not be *commingled** with funds used to operate or purchase any internet website or retail store inventory. This policy shall apply to any sales method owned or operated by CMU for any Material's sales. The Treasurer shall maintain an account entitled *Net Sales*. This account shall fully disclose all Gross Sales, any Sales Returns and Allowances, and any other sales-related activity. The Treasurer, within the Net Sales account, shall record all activities in compliance with CMU's owned or operated sales methodology.

7.1 The Store Manager, appointed by the Board, shall have the necessary skills and training to operate Inventory accounts within a retail establishment. Inventory accounting shall include, but not be limited to, conducting annual physical inventory counts to determine Beginning and Ending Inventory. Additionally, the Store Manager shall record Inventory Purchases and Sales, and maintain "Cost of Sales" required accounts. The Store Manager shall maintain separate accounts for separate customers, and shall administer an Inventory accounting for the store and any sales method owned or operated by CMU.

7.2 The Store Manager shall collect and remit any applicable Sales and Use taxes that may be required to the appropriate authority.



7.3 The Board of Directors shall create and implement a Merchandise Return Policy.

7.4 The Store Manager shall maintain *Inventory Management** Accounts, as established by the Board. The Store Manager will prepare all Financial Statements required by the Board. These statements shall include, at a minimum, a *Balance Sheet** and an *Income Statement*. Prepared financial statements will be presented to the Board at the AGM.

8.0 Triplicate deposit copies will be made by anyone other than the Treasurer. Copy 1 will go to the Bank. Copy 2 will go to the Depositor. Copy 3 will go to the Treasurer. Treasurer deposits will only require duplicate copies. Anyone making regular deposits, such as the Membership Secretary or Store Manager, may forward the Treasurer's copy no less than once per month. All others shall forward the Treasurer's copy upon making the deposit.

9.0 All reimbursed expenses shall be made in written form via a standardized expense sheet. To receive reimbursement, the requesting party must provide sufficient detail to support the reimbursement including, but not limited to the following; proof of payment, the name(s) of person(s) or organization(s) paid by the requestor, the payment date, the payee's contact information, the purchase's purpose, and the payment's amount and method. Reimbursement requests shall be submitted for approval and payment to the Treasurer, except for Commissioner's reimbursements. Commissioner's reimbursements (for Games Fees) shall be submitted for approval to the North American Commissioner. Upon granting approval, the North American Commissioner shall forward the request to the Treasurer for payment.

10.0 No internet websites receiving *General Membership funding**, will be listed in a person's name unless that person signs an ***Ownership Agreement Statement***, which assigns official ownership to CMU.

11.0 All loans made to CMU must be interest bearing, and must contain a structured repayment schedule that is unanimously approved by the Board AND the Chief of Clan MacTavish. The Treasurer shall honor the loan agreement's repayment stipulations.

12.0 All loans made by CMU members will follow the same loan criteria as stated in 11.0. Loan principle will become property of CMU. The Lending member shall relinquish all rights to loan principle except agreed to repayment thereof, including the direction of fund usage. The funds will become property of the CMU General Membership, who will duly elect officials empowered with the discretion to direct fund usage.

13.0 Each year, at a time determined by the Board, persons with overall responsibility for fundraising, such as, but not limited to, the National Commissioner and Committee Chairpersons, shall provide the Board with detailed reports of program and fundraising evaluations, including a complete description of the metrics used to evaluate such programs. They shall also make recommendations to the Board.

14.0 Each year, the Board and Audit Committee shall meet with the nonprofit's auditor. The auditor should be prepared to identify areas that he or she sees as potential problems or opportunities for fraud, or where real fraud is taking place. If the organization is given a management letter by an accountant, the issues cited should be rectified immediately and the improvements documented.

15.0 Each year, the Board shall evaluate the financial needs of members in other countries, with special attention given to recruitment of Supporting Members and representation at events in each country. The Board shall determine a percentage of the dues of members of represented countries for allocation to these endeavors.

16.0 Every three years, the Board shall conduct a full review of:

- (a) all legal documentation – to ensure completeness
- (b) programs – to ensure consistency with mission statement
- (c) full review of the financial statements to identify trends and patterns over that time frame
- (d) full review of all other documentation to identify trends, such as insurance claims, newspaper reports about the organization, fundraising results, human resources complaints, and disciplinary action against individuals within the organization.

APPENDIX 1

This is reserved for Job Description definitions.

It is important to clearly define each Job or Office. Each Job or Office (e.g. The Board, The President, The Vice-President, The Secretary, The Treasurer, The Storekeeper, etc.) plays a vital role in an organization's success or failure. Synergistically, good teamwork will amplify an organization's value beyond the mere sum of each Job's or Office's individual parts. Thus, there is an inter-dependency necessary to achieve optimal organizational success. Sadly, poor teamwork will amplify negative consequences and expedite an organization's decline.

Paradoxically, maximizing organizational value also requires a necessary segregation of duties from time to time. For example, certain necessary functions within a Treasurer's Office should not be performed by the Storekeeper, or vice versa. As will be seen later, maximizing organization value includes generating and maintaining General Membership confidence and good will. By demonstrating the desire to have each Job or Office perform its intended function to the best of its ability, Membership confidence and goodwill will be enhanced, and Membership retention rates will remain constant or grow over time.

APPENDIX 2

DEFINITION OF TERMS

Audit Committee – A group of people appointed by the Board and nominated by the General Membership. This group will assist in supervising the organization’s internal operations, preparing financial reports, implementing an internal audit system, and disclosing information. The group’s function is to ensure transparency and accuracy, to enhance organizational efficiency, and to build confidence throughout the organization. When necessary, the Committee shall be empowered to authorize investigations pertaining to alleged misuse of funds or misappropriation of assets. Afterwards, the Committee shall recommend corrective action, if applicable, to the Board.

Audit Financial Expert – Such an expert is to have: an understanding of GAAP and financial statements, experience in preparing, auditing, analyzing, or evaluating financial statements at or beyond the level of complexity of CMU’s financial statements, and an understanding of audit committee functions.

Audit Trail – Written documentation of detailed transactions supporting summary ledger entries. Verifiable documentation should adequately support fiscal transactions. Such documentation may include, but not be limited to, office supply receipts, deposit records, cancelled checks, invoices, and specific details about transactions or sales.

Balance Sheet – A financial statement, which presents an organization’s assets, liabilities, and/or owners equity at some specific point in time.

Commingled – Combining all monies into one account. For example, proceeds from a kilt’s sale are mixed with Membership Dues. Separate accounts for each/all relevant transactions should be maintained for clarity and transparency.

Conflict of Interest – A situation where someone in a trust position (e.g. An Officer or Board Director) has competing professional and/or personal interests. Such competing interests make it difficult to fairly discharge one’s duties. Even if no evidence of impropriety exists, an apparent conflict of interest can undermine public confidence in that person to act properly. Even the perception that one might exploit one’s professional opportunity for personal or organizational gain can adversely affect organizational morale.

Fiscal Transaction – Any exchange of money for value. This shall include, but not be limited to, annual membership dues, resale item’s payments, and insurance premium payments.

General Membership – All members in good standing within CMU.

General Membership funding – Funds originating from dues, donations or other methods that are held for the operation of CMU.

General Membership Vote – The Membership Secretary shall mail the ballot to the General Membership. The Secretary shall receive the ballot from the General Membership, record the votes and declare the elected individuals.

Inventory Management – A system necessary to manage the organization’s goods and materials held for future sale or use. Similar terms might include, but not be limited to, Inventory Control Management, Vendor Managed Inventory, Vendor Management Inventory, and Inventory Control. The system should include, among other things, a physical description of the inventory bought, including purchase vendor, cost, and date. Inventory purchase interval frequency should be addressed (e.g. monthly, bi-monthly, etc.). Any additional relevant expenses (e.g. freight charges, storage costs, etc.) should be logged. The check # or cash receipt # should be logged for cross-referencing. The Inventory’s valuation method should be chosen by the Board (e.g. FIFO, LIFO, etc.). Once chosen, that method **MUST** be followed consistently. Inventory is an important asset, whose valuation affects various financial statements.

Oversight – A role that ensures compliance with stated policy. For example, creating a good system is a good start, but ultimately has little value if it is not properly implemented. Therefore, any system requires periodic scrutiny to verify compliance and ensures adherence to stated policy.

Related parties – One or more persons who are related by marriage or blood, or who have a relationship that may create a conflict of interest, real or apparent, in discharging their duties. Related parties, even if acting appropriately, may give the “appearance of impropriety” to others within the organization. Such an appearance may lessen the overall confidence that others would have, absent the apparent conflict, in the organization.

APPENDIX 3

There are two pages of explanation, the first shows how the ending inventory would be valued. The second shows the impact that valuation has on income.

LIFO vs. FIFO: Illustration of Inventory Costing Methods			
	# Units	Unit Cost	Total Cost
Beginning Inventory			\$ -
Add: Purchases			
First	20	\$400.00	\$8,000.00
Second	20	\$ 500.00	\$10,000.00
Third	10	\$ 600.00	\$ 6,000.00
Fourth	10	\$ 700.00	\$ 7,000.00
Fifth	40	\$ 800.00	\$32,000.00
Cost of Goods Available for Sale	100		\$63,000.00
Assume 60 desks are sold @ \$2,000 per desk. That leaves 40 desks in our Ending Inventory.			
Case #1 FIFO -- First In, First Out			
Here, purchases 1 through 4 represent the inventory that was sold.			
Ending Inventory	40	\$ 800.00	<u>\$32,000.00</u>
Cost of Goods Sold			\$31,000.00
Case #2 LIFO -- Last In, First Out			
Here, purchases 3 through 5 represent the inventory that was sold.			
Ending Inventory	20	\$ 400.00	\$ 8,000.00
	20	\$ 500.00	<u>\$10,000.00</u>
			<u>\$18,000.00</u>
Cost of Goods Sold			\$45,000.00

<u>Income Statement Effects</u>		FIFO	LIFO
Sales	60 \$2,000.00	\$120,000.00	\$120,000.00
Cost of Goods Sold:			
Beginning Inventory		\$ -	\$ -
Purchases		<u>\$63,000.00</u>	<u>\$63,000.00</u>
Cost of Goods Available		\$63,000.00	\$63,000.00
Ending Inventory		<u>\$32,000.00</u>	<u>\$18,000.00</u>
Cost of Goods Sold:		<u>\$31,000.00</u>	<u>\$45,000.00</u>
Gross Profit		\$89,000.00	\$75,000.00
Various Other Expenses		<u>\$30,000.00</u>	<u>\$30,000.00</u>
Net Profit		\$59,000.00	\$45,000.00
<p>Under FIFO, a higher ending inventory reduces Cost of Goods Sold. In turn, this raises both Gross Profit and Net Profit. However, the Balance Sheet will have a higher ASSET valuation for Inventory.</p> <p>Conversely, under LIFO, a lower ending inventory raises Cost of Goods Sold. In turn, this lowers both Gross Profit and Net Profit. However, the Balance Sheet will have a lower ASSET valuation for Inventory.</p> <p>Thus, while either method, once selected and followed consistently, would be acceptable, clearly the method chosen will impact multiple financial statements, including the Income Statement and the Balance Sheet.</p>			