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## Policy and Procedure 12: General Finance Policies

### 1. Objective

The objective of this policy and procedure is to define how the Midwest Reliability Organization (MRO) manages its financial, operational, and budgetary affairs. These are general policy statements representing long-standing principles, traditions, and practices that have guided MRO in maintaining its financial stability.

### 2. Policy

These financial policies are intended to cultivate a culture of success and awareness of the vital need for prudent, informed and sound judgment in managing the financial and physical resources of MRO.

### 3. Provisions

#### A. Access to Records:

Members may inspect all books and records and voting agreements for any proper purpose at any reasonable time.

#### B. Accounting Method:

MRO utilizes the accrual basis of accounting that recognizes revenues when they have been earned and expenses when they have been incurred consistent with generally accepted accounting principles (GAAP).

#### C. Fiscal Year:

MRO's Calendar Year is January 1 to December 31.

#### D. Accounts Payable Accruals:

MRO accrues unpaid expenses at the end of the year on its financial records. Expenses have no minimum dollar limit and include accounting for estimates.

#### E. Accounts Receivable Write-Off Procedures and Authority:

All reasonable means of collecting accounts receivable will be exhausted before write-off procedures are initiated. If write-off procedures have been initiated, the following accounting treatment applies:

- i. Invoices written off that are dated during the current year will be treated as a reduction of the appropriate revenue account.
- ii. Invoices written off that are dated prior to the current year will be treated as bad debt.

#### F. Annual Audit:

MRO shall retain an independent accounting firm to conduct an annual audit. The MRO Board of Directors shall approve the accounting firm. The MRO Finance and Audit Committee may review proposals received from accounting firms and make recommendations to the board of directors.



### **G. Bank Accounts:**

The board of directors shall approve the financial institutions in which MRO maintains funds unless such account is mandated by regulations. No accounts may be established without a resolution of the board unless such account is mandated by regulations. The board of directors will be notified of any accounts mandated by regulations. Accounts for the collection of financial penalties under Section 215 of the Federal Power Act (U.S.) shall be segregated in a separate interest bearing account and released into general funds consistent with regulations or other rules.

### **H. MRO Retiree Medical Trust Funding, Reserves, and Budget:**

The annual retiree medical trust funding, reserves, and operating and capital budget, shall be prepared by the MRO staff in conjunction with the standing committees and submitted to the Finance and Audit Committee for approval by April 15. The Finance and Audit Committee will recommend the approved retiree medical trust funding, reserves, and budget, to the board of directors for adoption (typically the second board of directors meeting prior to the due date to NERC in the month of July). The MRO Retiree Medical Trust funding amount will be based on an actuarial study that is reviewed during the annual independent financial audit. The funding amount will be included in the budget as part of the personnel expense. The reserves will include a balance necessary to satisfy projected annual cash flow and cash balance requirements or as required by regulations. MRO staff may propose to set aside funds in a separate reserve account to be released in future periods to mitigate year-to-year variations in assessments. The reserves shall be reviewed annually to evaluate the sufficiency of the balance. The budget will include all resources necessary to complete the activities indicated in the annual implementation of the business plan. Committee chairs and vice chairs shall be included in the budgeting process to obtain action plans that may be helpful in ensuring a complete budget. The budget will reflect revenues equal to expenses unless specifically adopted by the board of directors to reflect a reserve in any particular year or if required by regulations. The budget will be monitored by MRO staff and the MRO Finance and Audit Committee for financial performance to ensure program goals are met consistent with the business plan and budget.

### **I. Capital Expenditures:**

MRO purchases will be made by competitive bid on all expenditures of \$10,000 or more. Exceptions are to be noted by memorandum and provided along with appropriate purchasing documentation to the approving authority. In evaluating competitive bids, MRO shall give due consideration to each bidder's policies regarding supplier's diversity and use of local business.

### **J. Capitalization Cutoff Points:**

MRO will expense assets in the period purchased if these assets cost less than \$3,000. Assets costing in excess of \$3,000 will be capitalized and depreciated in accordance with MRO's depreciation policies. Capitalization of intangible assets will be limited to assets of a significant monetary nature at no less than \$15,000. These assets must meet the definition of an intangible asset and be identified as having significant relevance to the operation of the organization. Any previously recognized intangible found to be impaired and no longer meeting the monetary threshold will be a write-off due to loss in value.

### **K. Check Disbursements:**

All check disbursements will require approved invoices or expense vouchers. The resulting checks will be signed by an authorized check signer.



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**L. Check Endorsement Policy:**

All checks shall be endorsed immediately upon receipt with a stamp for deposit only into the MRO checking account. The stamp will include the appropriate bank name and account number.

**M. Check Signers:**

Check signing authority is granted to the President and CEO and the Treasurer. Two alternate staff have authority as secondary signers for checks requiring two signatures. The department directors review invoices relating to their area of responsibility to ensure that proper documentation and authorization are included prior to payment. The Treasurer reviews all invoices to ensure that proper documentation and authorization are included prior to payment.

**N. Expense Checks for MRO Staff:**

Expenses will be reviewed and approved by the responsible manager or department director. The President and CEO's expenses will be reviewed and approved by the Governance and Personnel Committee Chair. This review and approval may occur via electronic means.

**O. Prepaid purchases:**

MRO records prepaid service costs of a short-term nature on its financial records that are in excess of \$3,600 or the equivalent of \$300/month.

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<sup>i</sup> Electronic disbursements also require approved invoices or expense vouchers. The resulting payment is electronically approved by an authorized check signer.