

Financial Policies and Procedures Manual

Approved by the Board of Directors

Effective Date

December 15, 2015

(All Subsequent Revisions/Additions listed on following page)

[Note: This edition of the Financial Policies and Procedures Manual (FPPM) effective December 15, 2015, revises, restates, and replaces the prior FPPM originally created October 21, 2008 including its revisions through February 18, 2014.]



Effective Date of Financial Policies and Procedures Manual (FPPM)

The effective date of all policies and procedures described in this manual is December 15, 2015. If a policy is added or modified subsequent to this date, the effective date of the new/revised policy will be indicated parenthetically immediately following the section heading. Listed below is a summary of all changes, revisions, or additions approved by the Board of Directors on the date indicated.

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Overview

MANUAL OVERVIEW

This Financial Policies and Procedures Manual (FPPM) is intended to provide an overview of the accounting and financial policies and procedures for Audubon Area Community Services, Inc., which shall be referred to as “Audubon Area Community Services” or “Audubon Area” or “the agency” throughout this manual.

Audubon Area Community Services is incorporated in the state of Kentucky and is exempt from Federal income taxes under IRC Section 501(c)(3) as a nonprofit corporation. Audubon Area Community Service’s tax-exempt mission is:

“Helping People. Changing Lives. Building Communities.”

"Audubon Area Community Services, Inc. mobilizes the strengths of the community to develop services that...

- Address identified needs and potential resources
- Lead to responsible, self-sufficient individuals

with enhanced human potential

- Strengthen our families
- Benefit our communities
- Demonstrate accountability."

This manual shall document the financial operations of the agency. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls.

Many topics in this document are also included in the agency’s Personnel Policies and Procedures Manual (PPPM). Cross references to this manual shall be indicated in this format: “[See PPPM, Section ___]”.

The contents of this manual were approved as official policy of the agency by the Board of Directors, Chief Executive Officer, and Chief Financial Officer. All Audubon Area Community Services employees are bound by the policies herein, and any deviation from established policy is prohibited.

Overview

AGENCY OVERVIEW

Audubon Area Community Services, Inc. (Audubon Area) is a private non-profit agency chartered October 15, 1973, upon the submission of Articles of Incorporation to the office of the Kentucky Secretary of State. The agency formally commenced operations on March 1, 1975 as successor to and the consolidation of two parent agencies operating from April and August 1966 in Henderson and Owensboro, respectively. Audubon Area Community Services, Inc. is a community action agency created under the Economic Opportunity Act of 1964 (Public Law 88-452) and authorized under the Kentucky Revised Statutes (K.R.S.) 273.410 et sequins, as revised under amendments by the 1982 General Assembly, entitled “Community Action Agencies.”

The 1980 General Assembly amended Chapter 65 of the K.R.S. and specifically defined the agency as a “special district” of the Commonwealth of Kentucky. Thus, Audubon Area, as the term “special district” implies is a unique, limited purpose unit of government created for and involved with its special aspect of public service. As a special district, Audubon Area is fully accountable to the local Fiscal Courts and the general public to whom it must make an annual report of its budget, services, service area, executive officers, and members of its governing Board of Directors.

Audubon Area Community Services, Inc. is also the recipient of federal grants either directly or indirectly from various Federal departments and agencies. Accordingly, Audubon Area is subject to statutory and regulatory requirements applicable to these grants. 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and other administrative requirements issued by Federal granting agencies, such as the Department of Health and Human Services (HHS) 45 CFR 75, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards.”

Audubon Area’s Board of Directors is the agency’s overall governing authority. It is fundamentally a policy-making and oversight body. The Board defines policy and practice within the agency. Executing the Board’s policy and plans is the function of the staff, under guidance and direction of the Chief Executive Officer. The agency has several advisory groups affiliated with its sponsored programs. In some cases, these are mandated in federal legislation. In others, the agency determined they were needed. Each of these councils is advisory to the Board and/or staff, except for the Head Start Policy Council, which functions with the board in overseeing the governance and operation of the Head Start Program. Its specific responsibilities, prerogatives, and authority are set forth in federal regulations, Head Start Performance Standards and Grants Administration requirements, which define designated Head Start operational roles for parents, administrators and the Board, and other grantor requirements as applicable, by contract.

Section 1: Organizational Structure

1.1 The Role of the Board of Directors

Audubon Area Community Services is governed by its Board of Directors, which is responsible for the oversight of the agency by:

1. Determining the agency's Mission.
2. Establishing broad policies, including long term planning, financial and personnel policies and procedures in support of the Mission.
3. Approving grant applications.
4. Reviewing and approving the annual audit.
5. Reviewing financial information.
6. Identifying and proactively dealing with emerging issues.
7. Interpreting the agency's mission to the public.
8. Soliciting prospective contributors.
9. Hiring, evaluating, and working with the Chief Executive Officer.
10. Establishing and maintaining programs and systems designed to assure compliance with terms of contracts and grants.
11. Authorizing establishment of all bank accounts and check signers.
12. Assessing organizational performance.

[See By-Laws of the Board of Directors, PPPM, Section 1.3]

1.2 Committee Structure

The Board of Directors shall form committees in order to assist the board in fulfilling its responsibilities. These committees are responsible for the review of particular programs and providing recommendations to the full board. Standing board-level committees of Audubon Area Community Services consist of the following:

1. Executive Committee
2. Administrative Support Services Committee (which may include the following subcommittees)
 - a. Staff Development Subcommittee
 - b. Marketing and Public Relations Subcommittee
 - c. Strategic Planning and Operations Subcommittee
 - d. Investment/Oversight Committee
 - e. Audit Review Committee
3. Early Childhood Committee
4. Social Support Services Committee
5. Housing & Transportation Committee

See the By-Laws of the Board of Directors for details about these committees. However, roles of committees with direct responsibilities for the financial affairs of the agency are further described in this manual [See Sections 44-45]. These committees shall be referred to in appropriate sections of this manual.

Section 1: Organizational Structure

1.3 Administrative Support Services Committee Responsibilities

The Committee is responsible for direction and oversight regarding the overall financial management of Audubon Area Community Services. Functions of the Committee include:

1. Review and recommendation of the agency's annual budget (prepared by the staff) for final approval by the full board.
2. Long-term financial planning.
3. Establishment of investment policy and monitoring investment performance.
4. Evaluation and approval of facilities decisions (i.e., leasing, purchasing property).
5. Monitoring of actual vs. budgeted financial performance.
6. Oversight of reserve funds.
7. Review of financial procedures.

The review of the agency's financial statements shall not be limited to the Administrative Support Committee, but shall involve the entire Board of Directors. [See Section 44]

1.4 Audit Review Committee Responsibilities

The Audit Review Committee hires an independent CPA firm and communicates directly with the CPA firm for an annual audit. The Audit Review Committee shall review and approve the final audited financial statements, and any other communications received from the auditor regarding internal controls, illegal acts, or fraud. The Audit Review Committee's role in the annual audit is more fully explained in Sections 41 and 45.

The Audit Review Committee also serves as one of the primary points of contact for any employee who suspects that fraud has been committed against the agency or by one of its employees or board members.

1.5 The Roles of the Chief Executive Officer and Department Directors

The Board of Directors hires the Chief Executive Officer (CEO), who reports directly to the Board. The Chief Executive Officer is responsible for hiring and evaluating all other officers including the Chief Operations Officer (COO), Chief Financial Officer (CFO), Chief Information Officer (CIO), and Chief Human Resources Officer (CHRO). Each officer report directly to the CEO. The Chief Executive Officer shall be responsible for the general oversight and management of the agency. Such responsibilities shall include the communication and implementation of the mission and vision of the Board of Directors into the daily operations of the agency and that the infrastructure of the agency functions effectively.

The Chief Operations Officer is responsible for evaluating all program department directors. The COO shall provide leadership support to program department directors and shall be responsible for the day-to-day oversight and management of these departments. The COO shall be responsible for developing, directing, and coordinating the activities of the Community Services program, i.e. CSBG. All other officers (CFO, CIO, and CHRO) shall be responsible for the oversight and direct management of their respective departments.

The Chief Executive Officer is "the authorized official" of the agency unless the Chairman of the Board is specifically identified by the grantor agency to sign all grant proposals, amendments or other money-related documents, including financial reports, contracts and other such instruments. In the absence of the Chief Executive Officer from the agency, the Chief Operations Officer shall have this authority. In the absence of both the CEO and the COO, the Chief Financial Officer shall have this authority. No other

Section 1: Organizational Structure

staff person is authorized to execute his/her signature on these documents without specific written authorization from the Chief Executive Officer which may be granted in specific situations or specific contracts.

Officers and Program Department directors are responsible for hiring employees to work in their department with approval from the Chief Executive Officer. All employees shall be placed in the department's organizational chart and assigned a supervisor by the respective officer or program department director. The officer or department director shall be responsible for managing and evaluating all direct reports to them and insuring the proper management and evaluation of all other employees through a supervisor within the department.

The officers and the program department directors represent the key leadership team of the agency.
[See PPPM, Section 1]

Section 2: Financial Department Overview

2.1 Organization

The Finance Department consists of staff that manages and process financial information for Audubon Area Community Services. The following positions comprise the Finance Department:

- Chief Financial Officer
- Fiscal Manager
- Fiscal Support Manager
- Payroll Coordinator
- Payables Coordinator
- Billing & Receivables Coordinator
- Financial Coordinator

Other officers and employees of Audubon Area Community Services who have financial responsibilities are as follows:

- Chief Executive Officer
- Chief Operating Officer
- Department Directors
- Human Resources Department
- Information Technology Department
- Administrative Support Committee – Board level
- Audit Review Committee – Board level
- Investment/Oversight Committee – Board level
- Executive Committee – Board level
- Full Board of Directors

2.2 Responsibilities

The primary responsibilities of the Finance Department consist of:

- General ledger
- Budgeting
- Cash and investment management
- Asset management
- Grants and contracts administration
- Purchasing
- Accounts receivable and billing
- Cash receipts
- Accounts payable
- Cash disbursements
- Payroll and benefits
- Financial statement processing
- External reporting of financial information
- Bank reconciliation
- Reconciliation of subsidiary ledgers
- Compliance with government reporting requirements
- Annual audit
- Leases
- Insurance

Section 2: Financial Department Overview

2.3 Standards for Financial Management Systems

In accordance with 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Audubon Area Community Services maintains a financial management system that provides for the following:

1. Identification, in all its accounts, of all Federal awards received and expended and the Federal programs under which they were received.
2. Accurate, current, and complete disclosure of the financial results of each Federally-sponsored project or program in accordance with the reporting requirements of 2 CFR Parts 200.327, Financial Reporting, and 200.328, Monitoring and Reporting Program Performance, and/or award.
3. Records that identify adequately the source and application of funds for Federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be fully supported by source documentation.
4. Effective control over and accountability for all funds, property, and other assets. Audubon Area Community Services must adequately safeguard all such assets and assure they are used solely for authorized purposes.
5. Comparison of outlays with budget amounts for each award. Whenever possible, financial information shall be related to performance and unit cost data.
6. Written procedures to minimize the time elapsing between the transfer of funds and disbursement by Audubon Area. Advance payments must be limited to the minimum amount needed and be timed to be in accordance with actual, immediate cash requirements. (*2 CFR Part 200.305, Payment*)
7. Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of 2 CFR Part 200 Subpart E, Cost Principles, and the terms and conditions of the award.
8. The agency shall follow a systematic method to assure timely and appropriate resolution of audit findings and recommendations in accordance with the requirements of 2 CFR Part 200 Subpart F, Audit Requirements.

Specific procedures to carry out these standards are detailed in the appropriate sections of this manual.

Section 3: Business Conduct

3.1 Practice of Ethical Behavior

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of Audubon Area Community Services depend to a very large extent on the following considerations.

Each employee must apply her/his own sense of personal ethics, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behavior where no existing regulation provides a guideline. Each employee is responsible for applying common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this standard in specific situations, employees should ask themselves the following questions:

1. Is my action legal?
2. Is my action ethical?
3. Does my action comply with Audubon Area Community Services' policies and procedures?
4. Am I sure my action does not appear inappropriate?
5. Am I sure that I would not be embarrassed or compromised if my action became known within the agency or to the public?

Each employee should be able to answer "yes" to all of these questions before taking action.

Each department director, manager and supervisor is responsible for the ethical business behavior of her/his subordinates. Department directors, managers and supervisors must carefully weigh all courses of action suggested in ethical, as well as economic terms, and base their final decisions on the guidelines provided by this policy and those in the Personnel Policies and Procedures Manual.

[See PPPM, Section 6]

3.2 Compliance with Laws, Regulations, and Agency Policies

Audubon Area Community Services does not tolerate:

- The willful violation or circumvention of any Federal, state, local, or foreign law by an employee during the course of that person's employment;
- The disregard or circumvention of Audubon Area Community Services policy or engagement in unscrupulous dealings.

Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden.

The performance of all levels of employees will be measured against implementation of the provisions of these standards.

Section 4: Conflicts of Interest (Effective 7/1/17)

4.1 Conflicts of Interest

In the course of business, situations may arise in which an agency decision-maker has a conflict of interest, or in which the process of making a decision may create an appearance of a conflict of interest.

Board members, Policy Council members, employees and other agency representatives have an obligation to:

- Avoid conflicts of interest, or the appearance of conflicts, between their personal interests and those of the agency in dealing with outside entities or individuals;
- Disclose real and apparent conflicts of interest to appropriate official(s), and;
- Refrain from participation in any decisions on matters that involve a real conflict of interest or the appearance of a conflict.

When inconsistent with the conflict of interest policy, the policy is superseded by the grant or contract, which may have more stringent requirements.

4.2 What Constitutes a Conflict of Interest?

A conflict of interest arises when a Board member, Head Start Policy Council member, employee, or their immediate family member, directly or indirectly through another individual or entity, has a personal or financial interest that compromises or could compromise their independence of judgment in exercising their responsibilities to the agency.

For purposes of this policy, immediate family member includes spouse or partner in a civil union recognized by state law; domestic partner; parent; child; sibling; father-in-law; mother-in-law; brother-in-law; sister-in-law; son-in-law; daughter in law; grandparent; or grandchild. The term includes individuals related by blood, adoption, or marriage (i.e. step family members).

Examples of conflicts of interest include, but are not limited to, situations in which a Board member, Head Start Policy Council member, employee, or other agency representative:

1. Negotiates, promotes or approves a contract, purchase, or lease on behalf of the agency and has a direct or indirect interest in, or receives personal benefit from, the entity or individual providing the goods or services;
2. Negotiates, promotes or approves a contract, sale, or lease on behalf of the agency and has a direct or indirect interest in, or receives personal benefit from, the entity or individual receiving the goods or services;
3. Sells products or services in competition with the agency;
4. Uses the agency's facilities, other assets, employees, or other resources for personal gain;
5. Receives a substantial gift from a contractor, if the Board member, Head Start Policy Council member, or employee is responsible for initiating or approving purchases from that contractor.

Section 4: Conflicts of Interest (Effective 7/1/17)

6. Receives remuneration from another entity for activities such as consulting, expert witness, advisory board membership, travel, etc. related to those for which the agency receives federal, state, or local funding.
7. Owns stock or holds stock options or holds other ownership interests in an entity which provides services to, or otherwise has a relationship with Audubon Area Community Services (See Section 4.3.)
8. Serves as a director, trustee, officer or key employee in a for-profit or nonprofit corporation, partnership, business, or other entity outside of Audubon Area Community Services and any of its subsidiaries that conflicts with the agency's interests, mission, or contractual relationships.
9. Has rights to and/or receive royalties from intellectual property including patents, copyrights and trademarks licensed to and/or owned by a for-profit entity that conflicts with the agency's interests, mission, or contractual relationships.

[See also PPPM, Section 6.7]

4.3 Disclosure Requirements

In compliance with state and federal law, board members, Head Start Policy Council members, employees, and other agency representatives must immediately disclose all real or perceived conflicts of interest to the chief executive officer and/or the Board of Directors. Depending on the circumstances, a relationship and/or transaction disclosed under this policy may not be a conflict of interest. However, if such relationship or transaction is determined to be a conflict of interest, a resolution will be implemented.

Financial Conflict of Interest includes one or more of the following conditions:

- if with a publicly traded entity, ownership interest of at least 1% of the entity's outstanding capital stock; or
- if with a privately held entity, ownership interest of 5% or greater.

Therefore, Audubon Area Community Services requires the following:

1. On an annual basis, the Board of Directors and the Head Start Policy Council, employees and other agency representatives shall inform, in writing, to the chief executive officer or Board of Directors of all reportable conflicts on a conflict of interest disclosure statements;
2. Upon appointment or hire, the above named individuals will immediately complete the requisite disclosures;
3. Upon the discovery or acquisition of new roles or significant financial interests, within thirty (30) days, the above named individuals will notify the chief executive officer and complete the requisite disclosures;

Section 4: Conflicts of Interest (Effective 7/1/17)

4. Prior to application for funding the Board of Directors, Head Start Policy Council, employees, and other agency representatives will complete or update the requisite disclosures, if not completed within the current fiscal year;
5. Annually, the Finance Department shall prepare and maintain a list of all contractors with whom the agency has identified as a potential conflict of interest. The list of contractors should not be considered all inclusive and does not indicate a limitation of disclosure requirements;
6. The chief executive officer shall review all annual disclosure statements submitted by employees, policy makers, and other agency representatives to determine and implement the appropriate resolution.
7. If a new or previously unreported conflict or financial interest arises during the year, the board member, Head Start Policy Council member, employee or other agency representative will immediately notify the chief executive officer who will ensure that the appropriate disclosure forms are completed in order to make a determination of a financial conflict of interest.

4.4 Review of Disclosure Statements

The chief executive officer shall review all disclosure statements prior to the commencement of a related contract. The chief executive officer shall determine whether a financial conflict of interest exists related to agency responsibilities.

If necessary, the chief executive officer will enlist the assistance of the agency's counsel to make such determination.

If the chief executive officer and/or agency counsel determine that a financial conflict of interest exists, a resolution will be implemented within thirty (30) days.

4.5 Noncompliance with Disclosure Requirements

In the event that a conflict of interest is not disclosed in a timely manner, the chief executive officer will review and make a determination as to whether it violates the financial conflict of interest policy within thirty (30) days of discovery. A resolution will be implemented immediately specifying the actions that have been and will be taken to remedy the conflict of interest.

If the non-disclosure was knowingly on the part of an employee, the disciplinary action section of this policy and/or the personnel policies and procedures manual will be implemented. If the non-disclosure was on the part of a policy maker, the requisite provisions of the agency by-laws will prevail.

4.6 Reporting of Financial Conflicts of Interest

Annual and revised financial disclosure statements will be compiled by the collection of the statements at least annually and prior to the expenditure of funds. If disclosure statements are amended by current agency representatives or completed by new representatives, the report will be revised accordingly within thirty (30) days.

Section 4: Conflicts of Interest (Effective 7/1/17)

At the request of funding sources and/or based upon contractual obligations, the agency will submit a report indicating the presence or lack of a financial conflict of interest on the part of anyone working with or under the specific contract.

If an agency representative fails to comply with this section of the Financial Policies and Procedures Manual including abiding by the terms of the resolution, the agency will immediately notify the funding source of the nature of non-compliance and the disciplinary action implemented. Notification of these items will occur within one business day of discovery and subsequent action. The disciplinary actions outlined in this section and in the agency's Personnel Policies and Procedures Manual will be utilized.

4.7 Maintenance of Records

The maintenance of records related to significant financial interests and financial conflicts of interest will be maintained in accordance with section 43.1 of this Financial Policies and Procedures Manual.

4.8 Confidentiality

To the extent permitted by law, all disclosure forms, conflict management plans, and related information will be confidential. However, the agency may be required to make such information concerning financial conflict of interest available if requested or required by funders. If such information is requested, the individual will be informed of this disclosure.

4.9 Subrecipient Requirements

Subrecipients will be subject to Section 4 of Audubon Area Community Services, Inc.'s Financial Policies and Procedures Manual as part of the written agreement between the entities.

4.10 Public Accessibility Requirements

Audubon Area Community Services Conflict of Interest policy and the entirety of the Financial Policies and Procedures Manual are publicly available on the agency's website.

4.11 Responsibilities in the Resolution of Conflicts of Interest

All real or perceived conflicts of interest shall be disclosed to the chief executive officer or Board of Directors of the agency. Conflicts shall be resolved as follows:

The chief executive officer shall be initially responsible for resolutions of conflicts of interest involving Board members, Head Start Policy Council members, employees, other agency representatives, and the immediate families of the above. If unable to resolve the conflict, the chief executive officer shall refer the conflict to the Board of Directors. Agency counsel shall be retained as needed.

The Board of Directors shall be responsible for resolving any conflict of interest involving the chief executive officer. Conflicts involving the chief executive officer, and/or the agency's Board/Policy Council policy makers shall be reported to the Board of Directors along with a report on the resolution of the conflicts.

Section 4: Conflicts of Interest (Effective 7/1/17)

4.12 Appeal Process

A Board member, Head Start Policy Council member, employee, or other agency representative may appeal the chief executive officer's decision that a conflict (or appearance of conflict) exists and his/her proposed resolution of the apparent conflict of interest as follows:

- An appeal must first be directed to the Administrative Support Committee of the Board.
- Appeals will, if feasible, be made within thirty (30) days of the chief executive officer's initial determination.
- Resolution of the appeal shall be made by quorum-majority vote of the Administrative Support Committee, with further appeal allowable to the full Board of Directors.
- Board members who are the subject of the appeal, or who have a conflict of interest with respect to the subject of the appeal, shall abstain from participating in, discussing, or voting on the resolution, unless their discussion is requested by the remaining members of the Board.

4.13 Disciplinary Action for Violations of this Policy

Employees who fail to comply with the standards contained in this policy may be subject to disciplinary action.

A Board or Head Start Policy Council member who violates this conflict of interest policy may be subject to removal from the Board or Policy Council.

Section 5: Policy on Suspected Misconduct

5.1 Suspected Misconduct

This policy communicates the actions to be taken for suspected misconduct committed, encountered, or observed by employees and volunteers.

Like all organizations, Audubon Area Community Services faces many risks associated with fraud, abuse, and other forms of misconduct. The impact of these acts collectively referred to as misconduct throughout this policy, may include, but not be limited to:

- Financial losses and liabilities
- Loss of current and future revenue and customers
- Negative publicity and damage to the agency's good public image
- Loss of employees and difficulty in attracting new personnel
- Deterioration of employee morale
- Harm to relationships with clients, contractors, bankers, and subcontractors
- Litigation and related costs of investigations, etc.

Our agency is committed to establishing and maintaining a work environment of the highest ethical standards. Achievement of this goal requires the cooperation and assistance of every employee and volunteer at all levels of the agency.

[See PPPM, Section 6]

5.2 Definitions

For purposes of this policy, misconduct includes, but is not limited to:

1. Actions that violate the agency's Code of Conduct (and any underlying policies) or any of the accounting and financial policies included in this manual.
2. Fraud (see below).
3. Forgery or alteration of checks, bank drafts, documents or other records (including electronic records).
4. Destruction, alteration, mutilation, or concealment of any document or record with the intent to obstruct or influence an investigation, or potential investigation, carried out by a department or agency of the Federal government or by the agency in connection with this policy.
5. Disclosure to any external party of proprietary information or confidential personal information obtained in connection with employment with or service to the agency.
6. Unauthorized personal or other inappropriate (non-business) use of equipment, assets, services, personnel or other resources.
7. Acts that violate Federal, state, or local laws or regulations.

Section 5: Policy on Suspected Misconduct

8. Accepting or seeking anything of material value from contractors, or persons providing goods or services to Audubon Area Community Services. Exception: gifts less than a nominal value. For purposes of this section, nominal value is defined as \$50.00.
9. Impropriety of the handling or reporting of money in financial transactions.
10. Failure to report known instances of misconduct in accordance with the reporting responsibilities described herein (including tolerance by supervisory employees of misconduct of subordinates).

Fraud is further defined to include, but not be limited to:

- Theft, embezzlement, or other misappropriation of assets (including assets of or intended for the agency, as well as those of our clients, subcontractors, vendors, contractors, suppliers, and others with whom the agency has a business relationship).
- Intentional misstatements in the agency's records, including intentional misstatements of accounting records or financial statements.
- Authorizing or receiving payment for goods not received or services not performed.
- Authorizing or receiving payments for hours not worked.
- Forgery or alteration of documents, including but not limited to checks, timesheets, contracts, purchase orders, receiving reports.

Audubon Area Community Services prohibits each of the preceding acts of misconduct on the part of employees, officers, executives, volunteers and others responsible for carrying out the agency's activities. [See PPPM, Section 6]

5.3 Reporting Responsibilities

Every employee is responsible for immediately reporting suspected misconduct to their supervisor, chief executive officer, chief financial officer, or the Board chair. When supervisors have received a report of suspected misconduct, they must immediately report such acts to their department director, chief executive officer, the chief financial officer or the Audit Review Committee. [See PPPM, Section 10.2]

5.4 Whistleblower Protection

The agency will consider any reprisal against a reporting individual an act of misconduct subject to disciplinary procedures. A "reporting individual" is one who, in good faith, reported a suspected act of misconduct in accordance with this policy, or provided to a law enforcement officer any truthful information relating to the commission or possible commission of a Federal offense. [See PPPM, Section 10.2]

Section 5: Policy on Suspected Misconduct

5.5 Investigative Responsibilities

Due to the sensitive nature of suspected misconduct, supervisors and managers should not, under any circumstances, perform any investigative procedures.

The chief executive officer has the primary responsibility for investigating suspected financial misconduct involving employees. The chief executive officer shall provide a summary of all such substantive investigative work to the Audit Review Committee.

The Audit Review Committee has the primary responsibility for investigating suspected misconduct involving chief executive officer and department directors, as well as Board members and officers. However, the Audit Review Committee may request the assistance of the chief financial officer in any such investigation.

Investigation into suspected misconduct will be performed without regard to the suspected individual's position, length of service, or relationship with the agency.

In fulfilling their investigative responsibilities, the chief executive officer and/or the Audit Review Committee shall have the authority to seek the advice and/or contract for the services of outside investigators, including but not limited to law firms, CPA firms, forensic accountants and investigative firms, etc.

Members of the investigative team (as authorized by the chief executive officer and/or the Audit Review Committee) shall have free and unrestricted access to all agency records and premises, whether owned or rented, at all times. They shall also have the authority to examine, copy and remove all or any portion of the contents (in paper or electronic form) of filing cabinets, storage facilities, desks, credenzas and computers without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of an investigation into suspected misconduct or related follow-up procedures.

The existence, the status or results of investigations into suspected misconduct shall not be disclosed or discussed with any individual other than those with a legitimate need to know in order to perform their duties and fulfill their responsibilities effectively.

5.6 Protection of Records – Federal Matters

Audubon Area Community Services prohibits the knowing destruction, alteration, mutilation, or concealment of any record, document, or tangible object with the intent to obstruct or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States government, or in relation to or contemplation of any such matter or case.

Violations of this policy will be considered violations of the agency's Code of Ethics and subject to the investigative, reporting, and disclosure procedures described earlier in this Policy on Suspected Misconduct.

Section 5: Policy on Suspected Misconduct

5.7 Disciplinary Action

Based on the results of investigations into allegations of misconduct, disciplinary action may be taken against violators. Disciplinary action shall be coordinated with appropriate representatives from the Human Resources Department. The seriousness of misconduct will be considered in determining appropriate disciplinary action, which may include:

- Reprimand
- Probation
- Suspension
- Demotion
- Termination
- Reimbursement of losses or damages
- Referral for criminal prosecution or civil action

This listing of possible disciplinary actions is for information purposes only and does not bind the agency to follow any particular policy or procedure. [See PPPM, Section 11.4]

5.8 Confidentiality

The chief executive officer and/or the Audit Review Committee treats all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify their supervisor, chief executive officer, or the Board chair and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act. [See Section 5.3 above]

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect Audubon Area Community Services from potential civil liability in accordance with KRS 61.810(1)(f).

The Audit Review Committee may conduct closed meetings in order to discuss matters which may lead to the discipline or dismissal of the chief executive officer or Board member.

An employee who discovers or suspects fraudulent activity may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual(s), his or her attorney or representative(s), or any other inquirer should be directed to the agency's investigator—the chief executive officer or the Audit Review Committee or the agency's designated legal counsel. No information concerning the status of an investigation will be given out. The proper response to any inquiry is "I am not at liberty to discuss this matter." Under no circumstances should any reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference.

Section 5: Policy on Suspected Misconduct

The reporting individual should be informed of the following:

1. Do not contact the suspected individual in an effort to determine facts or demand restitution.
2. Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the Audubon Area Community Services legal counsel or the Audit Review Committee.

5.9 Disclosure to Outside Parties

Allegations of and information related to allegations of suspected misconduct shall not be disclosed to third parties except under the provisions described in this policy (such as disclosure to outside investigators hired by the agency to aid in an investigation).

However, all known frauds involving the chief executive officer, department directors, or members of the Board of Directors, as well as all material frauds involving employees below the department level, shall be disclosed by the chief executive officer and/or the Audit Review Committee to the agency's external auditors.

The agency will disclose, in a timely manner, in writing to Federal awarding agencies all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. [2 CFR Part 200.113 Mandatory Disclosures]

Section 6: Security

6.1 Finance Department

A lock will be maintained on the door leading into the Audubon Area Community Services Finance Department. This door shall be closed and locked in the evenings and whenever the Finance Department is vacant.

Audubon Area Community Services' corporate seals and blank check stock shall be stored in a file cabinet in the Finance Department. This cabinet will be locked with a key that is kept in the Finance Department. Access to this file cabinet shall be by keys in the possession of the chief financial officer and those appointed by the chief financial officer.

Petty cash is stored in a lock box or a drawer locked with a key. The designated Petty Cash Custodian, the chief financial officer and the chief executive officer will be the only employee with keys to the petty cash drawer.

6.2 Access to Electronically Stored Accounting Data

Audubon Area Community Services utilizes passwords to restrict access to accounting software and data. Only duly authorized personnel with data input responsibilities will be assigned passwords that allow access to the system. Accounting personnel are expected to keep their passwords secret and to change their passwords on a regular basis. Each password enables a user to gain access to only those software and data files necessary for each employee's required duties. On an annual basis, the agency performs a review of accounting software users to ensure they have the appropriate access levels. Unnecessary access will be rescinded.

6.3 Storage of Back-Up Files

Audubon Area Community Services maintains back-up copies of electronic data files off-site in a secure, fire-protected environment. Access to back-up files shall be limited to individuals authorized by management. A log should be kept which records the whereabouts of each backup media. Multiple copies of backup media are recommended so as to not overwrite the most recent backup. The agency should have a regularly scheduled test of its capability to restore from backup media.

6.4 Storage of Sensitive Data

In addition to accounting and financial data stored in the Finance Department, other sensitive data, including protected personally identifiable information (PII) such as social security numbers of employees or clients, etc. may be stored in areas other than the Finance Department, such as in the Human Resources offices or electronic or on-line storage. Therefore, the agency:

1. Minimizes the storage of sensitive data outside the Finance Department by shredding documents with such data or deleting the sensitive data from documents that are stored outside the Finance Department as soon as possible; and

Section 6: Security

2. Requires that all sensitive data that is stored in areas other than the Finance Department is secured in locked filing cabinets that are placed in offices that are locked after hours. Further, the agency restricts access to sensitive data to individuals with a legitimate need for such access.

6.5 Destruction of Consumer Information

As stated earlier, all sensitive data must be securely stored and shredded when no longer needed. Audubon Area Community Services will also shred all consumer information obtained by the agency for any reason. Shredding will be performed on a schedule determined by each department that possesses such data and the schedule shall be made a part of the Record Retention policy.

6.6 General Office Security

During normal business hours, central offices and department office locations will restrict access to visitors requiring such visitors to check in with the receptionist or be admitted by an employee of the agency. After hours, approval from supervision is required for access to the central office and other agency offices. Access is issued only to employees of Audubon Area Community Services and other individuals as designated by the chief executive officer.

6.7 Use of Electronic Signatures

The use of electronic signatures is permitted. In the accounting system the approval process used in purchase orders and other modules serves as an electronic signature or approval. The establishment of approval levels is controlled by the department director and the maintenance of the security features and setups are controlled by the Information Technology Department. Participation of both is required to change or establish approval limits.

Section 7: Technology and Electronic Communications

7.1 Purpose and Scope

The purpose of this policy is to identify guidelines for the use of Audubon Area Community Services technologies and communications systems. This policy establishes a minimum standard that must be upheld and enforced by users of the agency's technologies and communications systems.

The term "user" as used in these policies refers to employees (whether full-time, part-time or limited-term), independent contractors, consultants, and any other user having authorized access to, and using any of, the agency's computers or electronic communications resources.

Computer and electronic communications resources include, but are not limited to, host computers, file servers, stand alone computers, laptops, PDAs, printers, fax machines, telephones, cellular telephones, online services, email systems, bulletin board systems, and all software that is owned, licensed or operated by Audubon Area Community Services.

[See PPPM, Section 6]

7.2 Acceptable Use of Agency Property

Use of the agency's computers and electronic communications technologies is for program and business activities of Audubon Area Community Services. These resources shall be used in an honest, ethical, and legal manner that conforms to applicable license agreements, contracts, and policies regarding their intended use. Although incidental and occasional personal use of the agency's communications systems are permitted, users automatically waive any rights to privacy.

In addition, the information, ideas, concepts and knowledge described, documented or contained in the agency's electronic systems are the intellectual property of Audubon Area Community Services. The copying or use of the agency's intellectual property for personal use or benefit during or after employment (or period of contract) with Audubon Area Community Services is prohibited unless approved in advance by the chief executive officer.

All hardware (laptops, computers, monitors, mice, keyboards, PDAs, printers, telephones, cellular telephones, fax machines, etc.) issued by Audubon Area Community Services is the property of the agency and should be treated as such. Users may not physically alter or attempt repairs on any hardware at any time. Users must report any problems with hardware to the CIO.

7.3 Password Security

Users are responsible for safeguarding their login passwords. Passwords may not be shared, printed, or stored online. Users should not leave their computers unattended without logging off. If a user suspects that the secrecy of their password has been compromised they should report this to the CIO immediately and initiate a password change request.

Section 7: Technology and Electronic Communications

Any agency-issued passwords to employees must be changed immediately after initial login. Passwords should contain at least 7 characters and be complex. They should not be a dictionary word, your son or daughters name, etc. Passwords should be made up of a combination of the following: letters, numbers, special characters, and upper and lower case characters.

7.4 Confidentiality

All information about individuals, families or organizations served by Audubon Area Community Services is confidential except as provided by the Family Educational Right to Privacy Act (Buckley Amendment) (Appendix F). No information may be shared with any person or organization outside Audubon Area Community Services without the prior written approval of the individual, family or agency and the chief executive officer.

[See PPPM, Section 6.1]

7.5 E-Mail Communications

The agency may communicate with its customers, contractors and clients via e-mail. E-mail is not a secure or private communications mechanism, nor should employees treat it that way. Sensitive or confidential information should not be sent via e-mail over the Internet without password protection or encryption.

Employees should exercise care in the use of e-mail and in the handling of e-mail attachments. If an e-mail is from someone you do not know, or if you were not expecting an attachment, do not open it, delete it. The user should contact the CIO for assistance if there are questions as to the validity of the message and attachment.

[See PPPM, Section 6.19]

7.6 Anti-Virus Controls

The agency maintains current anti-virus controls on its computer systems. This includes servers and personal computers. The system will automatically download and distribute virus signature updates to all systems. The anti-virus software is monitored by the CIO. Weekly file system scans of all systems are conducted automatically.

Users are prohibited from disabling or altering the configuration of the anti-virus software. Users are also required to report any suspicious activity on their computers to the CIO. This activity included, but is not limited to: cursor or mouse moving on its own, hard drive thrashing without user input, uncharacteristically slow performance, a change in behavior of the system, etc.

7.7 Purchase of Computer Equipment

The chief executive officer, chief financial officer and chief information officer must be consulted on all purchases of computers and software. This procedure is to be followed to prevent duplication and to assure that all computer equipment and software are compatible with the agency's goal of total integrated systems.

7.8 Disposal of Computer Equipment

Section 7: Technology and Electronic Communications

Audubon Area Community Services will run “file-shredding” software on all electronic media, including computer hard drives, prior to disposing of computer equipment. This software should perform low-level formatting or use a “wipe” utility that follows the Department of Defense (DoD) standard 5220.22. The software overwrites all areas of the computer’s hard drive in a manner that makes it impossible for subsequent users to retrieve any of the data on the hard drive. This procedure shall be performed by Audubon Area Community Services’ chief information officer (or designee).

7.9 Copyrighted Information

Use of Audubon Area Community Services electronic communication systems to copy, modify, or transmit documents, software, information or other materials protected by copyright, trademark, patent or trade secrecy laws, without obtaining prior written permission from the owner of such rights in such materials, is prohibited.

7.10 Cell Phones [December, 2011]

The agency has determined that use of a cell phone for non-compensatory business purposes will contribute to the overall effectiveness of business communication and increase safety of staff. Provision of an agency-owned cell phone or of a cell phone reimbursement allowance may be limited by budgetary constraints of specific programs. This policy provides a set of guidelines governing the assignment and use of agency-owned and employee-owned cell phones by employees.

Definitions:

- a) “Cell phone” is defined as any handheld electronic mobile device with the ability to receive and/or transmit voice, text, or data messages without a cable connection which would include cellular telephones, digital wireless phones, smart phones, Blackberry, personal digital assistants (PDA), or similar devices such as ipads, tablet devices or notebooks with data cards/data plans.
- b) “Agency-owned cell phone” is defined as a cell phone owned by the agency. The agency pays the initial/replacement cost and monthly service cost of the cell phone.
- c) “Employee-owned cell phone” is defined as a cell phone owned by the employee. The employee pays the equipment cost and the monthly service cost of the cell phone.
- d) “Cell phone reimbursement allowance” is defined as a monthly reimbursement allowance based upon a typical contract provided to the employee in which agency has opted to provide a cell phone allowance for non-compensatory business use of an employee-owned cell phone in lieu of provision of an agency-owned cell phone.
- e) “Non-compensatory business purposes” as defined by IRS guidance (Notice 2011-72) is considered to be the provision of a cell phone to an employee for “substantial reasons relating to the employer’s business, other than providing compensation to the employee.” Cell phones provided for non-compensatory business reasons are considered a working condition fringe benefit and are excluded from the employee’s income. Personal use of a cell phone provided for non-compensatory business purposes is a non-taxable de minimis fringe benefit. Cell phones may not be provided for the purpose of promoting morale, attracting employees, or adding to an employee’s compensation.

Section 7: Technology and Electronic Communications

Provision of Agency-owned Cell Phone or Cell Phone Reimbursement Allowance

An agency-owned cell phone or a cell phone reimbursement allowance may be provided to an employee under the following conditions:

- Employee's position must be on the list of positions determined eligible for agency phone for non-compensatory purposes that is approved by the chief executive officer.
- Must be recommended and approved by the department director.
- Departmental and program budgets must be adequate to support the equipment and monthly service costs or allowances.
- Cell Phone Authorization form must be completed for all requests for an agency-owned cell phone or for a cell phone reimbursement allowance.
- Must be for a demonstrated non-compensatory business purpose. Such business purposes may include but are not limited to an employer's need to contact the employee at all times for work-related business or emergencies; the employer's requirement that the employee be available to speak with clients, business associates, or other employees when the employee spends significant time out of the office or traveling between offices on official business; employee's need to regularly communicate for business purposes after business hours; for safety or security; or other similar business purposes identified by the agency.
- All purchases, modifications, or changes for agency-owned cell phones and/or plans shall be made through the Information Technology department and shall be in accordance with agency-established guidelines. Employees are not authorized to make any changes to the cell phone service on an agency-owned cell phone account.
- Cell phones will be replaced no more frequently than once every two years. An earlier replacement is allowed upon the recommendation of a department director.
- Employees determined eligible for provision of an agency-owned cell phone may be given the option of a cell phone reimbursement allowance. Use of employee-owned cell phones allows the employee more flexibility in having a single phone number for personal and business use and in selection of equipment, plans and applications.
- Employee must comply with the requirements of Section 6.20 "Cell Phones" in the agency's Personnel Policy and Procedure Manual.

Cell Phone Reimbursement Allowance

Annually the agency shall determine the monthly cell phone reimbursement allowance rates for basic voice, text, data plan (email, internet); and comprehensive voice/text/data plan for low, average, or high use. Cell phone allowances for equipment shall not exceed the average cost of providing agency-owned cell phones plans and equipment. The following conditions and guidelines apply to cell phone reimbursement allowances:

- Must be recommended and approved by the department director.
- Employees receiving an allowance agree to allow their employee-owned cell phone number to be published or shared with other employees as needed.
- No additional reimbursement will be provided to those receiving a monthly allowance even if monthly charges to the employee should exceed the allowance amount.
- Employees receiving a cell phone allowance may use their cell phone for both personal and business related calls.
- Employee is free to obtain any type of cell phone equipment and cellular plan (such as family plans, etc.) as long as such plan complies with the minimum standards for the reimbursement allowance provided.
- Employee cell phone contracts must be taken out in the name of the employee receiving the allowance and may not be taken out in the name of the agency.

Section 7: Technology and Electronic Communications

- Requests for a cell phone equipment allowance will be allowed no more frequently than once every two years. An earlier replacement is allowed upon the recommendation of a department director.
- Employees receiving an allowance for non-compensatory business use of their phone remain personally liable for all monthly charges or termination fees regardless of employment status or any change in cell phone allowance policy or rates.
- Employee is responsible for notifying their supervisor if they are canceling their service or if they no longer wish to use their personal cell phone for business communication.
- The agency may elect to provide the standard prorated equipment reimbursement allowance if the phone of an employee receiving a monthly allowance is lost, stolen, or damaged while conducting agency business.
- The agency reserves the right to change or terminate cell phone allowances at any time.

Cell Phone Administration

The chief executive officer shall be responsible for maintaining a list of approved positions for which the agency may provide an agency-owned cell phone or provide a cell phone reimbursement allowance for non-compensatory business purposes. Additions or deletions from this list must be submitted to the chief executive officer for approval. The chief executive officer shall also be responsible for establishing and publishing periodically a schedule of rates for cell phone reimbursement allowances based on prevailing cellular rates and plans. Department directors may designate specific phones for a location or for multiple persons to use for safety reasons without assigning phone to a specific individual.

The Information Technology department shall be responsible for the issuance of all agency-owned cell phones contingent upon receipt of an approved Cell Phone Authorization form. The IT department shall maintain inventory of all agency-owned cell phones; negotiate contracts with the cellular carrier for equipment and cell phone plans; coordinate repair and replacement of phones as needed; provide support for synchronization of phones with agency systems and services; provide prorated billing invoices to each department based on carrier reports and invoices; provide periodic cell phone usage reports to department directors; modify existing equipment and plans as needed; and other activities necessary to implementation of this policy.

The Finance department shall be responsible for the approval and provision of cell phone reimbursement allowance contingent upon receipt of an approved Cell Phone Authorization form and monthly invoices and purchase orders from each department for employees that are authorized for cell phone allowances.

Cell Phone Oversight

Department directors (or their designees) shall be responsible for oversight of employee cell phone usage and shall monitor and review such usage periodically to ensure that use is appropriate and that prudent fiscal management guidelines are followed. Cell phone usage that is significantly above the average number of minutes or data usage by employees in the same or similar position, repeated calls to the same phone number, excessive minutes or data usage should be analyzed for possible misuse. Suspected or repeated violations of this cell phone policy should be reported to the Human Resources department for preliminary investigation for misconduct. Multiple voice, text, or data plans for an individual employee (whether direct or reimbursed) such as an agency-paid data plan on a cell phone and a notebook or tablet is not allowed without adequate justification and approval by the chief executive officer.

Section 7: Technology and Electronic Communications

7.11 Download/Installation of Software

The installation of new software without the prior approval of CIO is prohibited. If an employee desires to install any new programs, written permission should first be obtained. Software should not be downloaded from the Internet. This is a common mechanism for the introduction of computer viruses. If Internet-based software is needed, the CIO should be contacted to perform the download and testing of the application prior to installation.

7.12 Other Prohibited Uses

Other prohibited uses of the agency's communications systems include, but are not limited to:

1. Engaging in any communication that is discriminatory, defamatory, pornographic, obscene, racist, and sexist or that evidences religious bias, or is otherwise of a derogatory nature toward any specific person, or toward any race, nationality, gender, marital status, sexual orientation, religion, disability, physical characteristic, or age group.
2. Browsing, downloading, forwarding and/or printing pornographic, profane, discriminatory, threatening or otherwise offensive material from any source including, but not limited to, the Internet.
3. Engaging in any communication that is in violation of Federal, state or local laws.
4. Proselytizing or promoting religious beliefs or tenets.
5. Campaigning for or against any candidate for political office or any ballot proposal or issue.
6. Sending, forwarding, redistributing or replying to "chain letters."
7. Using unauthorized passwords to gain access to another user's information or communications on the agency's systems or elsewhere.
8. Advertising, solicitation or other commercial, non-programmatic use.
9. Knowingly introducing a computer virus into the communications systems or otherwise knowingly causing damage to the systems.
10. Using the systems in a manner that interferes with normal business functions in any way, including but not limited to, streaming audio from the Internet during business hours, stock tickers, Internet gaming, installing unauthorized software, etc.
11. Excessive personal use of technologies that preempts any business activity or interferes with organizational productivity.
12. Sending email messages under an assumed name or obscuring the origin of an email message sent or received.

[See PPM, Section 6.19]

Section 7: Technology and Electronic Communications

7.13 Disciplinary Action for Violations

Audubon Area Community Services requires all users to adhere to this policy. Violations of this policy will result in disciplinary action, which may include termination of employment or cancellation of contracts.

7.14 Reporting of Suspected Violations

Suspected violations of these policies should be immediately and confidentially reported to the employee's immediate supervisor. Employees preferring not to discuss it with their supervisor may contact the chief executive officer or the Board chair.

Audubon Area Community Services reserves the right to install programs that monitor employee use of the Internet and electronic communications systems, and to act on any violations of these policies found through use of such programs. Installation of monitoring software or systems must have the prior approval of the chief executive officer. Audubon Area Community Services further reserves the right to examine any and all electronic communications sent or received by employees via the agency's electronic communications systems.

Section 8: General Ledger and Chart of Accounts

The general ledger is the collection of all asset, liability, net assets, revenue and expense accounts. It is used to accumulate all financial transactions and is supported by subsidiary ledgers that provide details for certain accounts. The general ledger is the foundation for the accumulation of data and production of reports.

8.1 Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system and the basis for the accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense, and gain and loss account.

Audubon Area Community Services' chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets
4. Revenues
5. Expenses
6. Gains and Losses

Each account number shall be preceded by a three-digit fund code, a three-digit department code, and a three digit sub-department code.

8.2 Control of Chart of Accounts

The chief financial officer monitors and controls the chart of accounts, including all account maintenance, such as additions and deletions. Any additions or deletions of accounts must be approved by the chief financial officer, who ensures that the chart of accounts is consistent with the organizational structure of Audubon Area Community Services and meets the needs of each division and department.

8.3 Account Definitions

General Ledger

Account Range

1000 - 1999

Category

Assets

Definition

Assets are probable future economic benefits obtained or controlled by the agency as a result of past transactions or events. Assets are classified as current assets, capital assets, contra-assets, and other assets.

Section 8: General Ledger and Chart of Accounts

Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

Capital assets (property and equipment) are tangible assets with a useful life of more than one year that are acquired for use in the operation of the agency and are not held for resale.

Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable

Other assets include long-term assets that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments.

2000 – 2999

Liabilities

Liabilities are probable future sacrifices of economic benefits arising from present obligations of the agency to transfer assets or provide services to other entities in the future as a result of past transactions or events. Liabilities are classified as current or long-term.

Current liabilities are probable sacrifices of economic benefits that will likely occur within one year of the date of the financial statements or which have a due date of one year or less. Common examples of current liabilities include accounts payable, accrued liabilities, short-term notes payable, and deferred revenue.

Long-Term Liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

3000 - 3999

Net Assets

Net Assets is the difference between total assets and total liabilities.

Section 8: General Ledger and Chart of Accounts

4000 - 4999

Revenues

Revenues are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an agency's ongoing major or central operations. Revenues include grants received from government agencies, private foundations and corporations, and contributions received from donors.

5000 - 5999

Expenses

Expenses are outflows or other activities using assets, or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute Audubon Area Community Services' ongoing major or central operations.

8.4 Fiscal Year of Agency

Audubon Area Community Services shall operate on a fiscal year that begins on July 1 and ends on June 30. Any changes to the fiscal year of the agency must be ratified by majority vote of Audubon Area Community Services' Board of Directors.

8.5 Accounting Estimates

Audubon Area Community Services utilizes numerous estimates in the preparation of its interim and annual financial statements. Some of those estimates include:

1. Useful lives of property and equipment
2. Fair market values of investments
3. Fair market values of donated assets
4. Values of contributed services
5. Joint cost allocations
6. Allocations of certain indirect costs
7. Allocations of time/salaries

The chief financial officer will reassess, review, and approve all estimates yearly. All key conclusions, bases, and other elements associated with each accounting estimate shall be documented in writing. All material estimates, and changes in estimates from one year to the next, shall be disclosed to the Administrative Support Committee, the Audit Review Committee, and the external audit firm.

Section 8: General Ledger and Chart of Accounts

8.6 Journal Entries

All general ledger entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, including an explanation of each such entry. Examples of such journal entries are:

1. Recording of non-cash transactions
2. Corrections of posting errors
3. Nonrecurring accruals of income and expenses

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Depreciation of capital assets
2. Amortization of prepaid expenses
3. Accruals of recurring expenses
4. Amortization of deferred revenue

Recurring journal entries shall be supported by a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, a journal voucher.

All journal entries not originating from subsidiary ledgers shall be authorized in writing by the chief financial officer or by the fiscal manager. Journal entries made by the chief financial officer or the fiscal manager must be authorized in writing by another employee in the Finance Department or the chief executive officer.

8.7 Correcting Errors

From time to time errors will be discovered in the posting to the general ledger. If a suspected error is found in the general ledger by program staff or supervisors they should contact the fiscal manager or the chief financial officer to discuss the error. The Finance Department will examine the entry in the General Ledger and view the supporting documentation to determine the correct entry. The fiscal manager or chief financial officer will make the correcting entry and notify the program staff of the entry. If an error is discovered by the Finance Department they will examine supporting documentation and determine the corrective action. The program staff involved in coding the entry may be notified in cases where there appears to be some misunderstanding as to where certain items should be posted. If it is deemed to be a material or significant adjustment the department director will be notified of the error and the corrective action.

Section 9: Revenue

9.1 Revenue Recognition Policies

Audubon Area Community Services receives revenue from several types of transactions. Revenue from each of these types of transactions is recognized in the financial statements in the following manner:

1. **Grant income** - Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards). Grant income may be a contribution or exchange transaction-based or both. [See Section 12]
2. **Noncash (In-Kind) Contributions** – Recognized as income when received. [See Section 11]
3. **Program Income** –Income generated by a supported activity or earned as a result of an award or program.- This may include exchange transactions.
4. **Cash Contributions/Donations** - Recognized as income when received, unless accompanied by donor-imposed conditions. [See Section 12]
5. **Fee-for-Service Income** – Recognized as income when services are rendered unless collection of amounts due is in question. In this case, revenue is recognized when payments are received.
6. **Interest and Investment Income** – Monthly accrual based on when it was earned. Investment return is generally considered free of donor restrictions, unless its use is limited by a donor-imposed restriction of by law. [See Section 36]
7. **Promises to Give** – Recognized as income upon receipt of clear communication of the promise from the donor or the donor's legal representative (e.g., trustee, attorney, etc.), unless accompanied by a condition or conditions. [See Section 12]

Immaterial categories of revenue may be recorded on the cash basis of accounting (i.e., recorded as revenue when received) as deemed appropriate by the Chief Financial Officer.

9.2 Definitions

The following definitions shall apply with respect to the policies described in this section:

Contribution –A receipt of cash or other assets to the agency, including promises to give, collections, or a settlement or cancellation of the agency's liabilities, in a voluntary nonreciprocal transfer by another entity or individual. A contribution may or may not include a donor-imposed condition or restriction.

Donor-Imposed Condition – A donor-imposed stipulation that represents a barrier that must be overcome before the agency is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred to the agency or releases its obligation to transfer its assets.

Section 9: Revenue

Donor-Imposed Restriction – A donor-imposed stipulation that specifies a use for the contributed asset that is either limited to a specific future time period or is more specific than the broad limits resulting from the nature of the agency, the environment in which it operates, and the purposes specified in the Articles of Incorporation and Bylaws. Restrictions on the use of an asset may be temporary or permanent.

Exchange Transaction – A reciprocal transaction in which Audubon Area Community Services and another entity each receive and sacrifice something of approximately equal value.

Nonexchange Transaction – The agency receives something of value without directly giving value in exchange. These transactions may include grants.

Nonreciprocal Transfer – A transaction in which an individual or entity incurs a liability or transfers assets to the agency without directly receiving value in exchange.

Promise to Give – A written or oral agreement to contribute cash or other assets.

Program income – Generally means gross income earned by the agency from activities, part or all of the cost of which is either borne as a direct cost by a grant or counted as a direct cost towards meeting a cost-sharing or matching requirement of a grant.

Section 10: ADMINISTRATION OF FUNDING AWARDS

10.1 Definitions

Audubon Area Community Services may receive financial assistance from a donor/grantor agency through the following types of agreements:

Grant: A financial assistance award given to the agency to carry out its programmatic purpose.

Contract: A mutually binding legal agreement where the agency agrees to provide supplies or services and the funded agrees to pay for them.

Cooperative Agreement: A legal agreement where the agency implements a program with the direct involvement of the funded.

Throughout this manual, Federal assistance received in any of these forms will be referred to as a Federal “award.”

10.2 Preparation and Review of Proposals

Individual departments are responsible for preparing proposals for projects that the department intends to pursue. However, all proposals shall be reviewed by the chief financial officer prior to submission to government agencies or other funding sources. Final proposals shall be reviewed and approved by the Board of Directors and the chief executive officer.

10.3 Grants and Contracts

The Board of Directors shall approve all grants, contracts, funding/refunding proposals, budget amendments or other significant program modification matters. Unless the Chairman of the Board is directly specified by the respective grantor/contractor, the chief executive officer is the authorized official to sign grant requests, contracts, grants, amendments, or other related documents. In the absence of the chief executive officer, the chief operations officer has the authority. In the absence of both chief executive officer and chief operations officer, the chief financial officer has the authority. In the case of Head Start grants, contracts, proposals, amendments or other required actions, the Policy Council shall approve in addition to the Board of Directors.

All grants and contracts and amendments awarded to the agency for operations of programs will be processed in accordance with following procedures:

1. All grants and contracts and amendments will immediately upon receipt be forwarded to the chief executive officer. The chief executive officer will review the grant, contract, or amendment and if acceptable will distribute copies to the chief financial officer for review and financial management system setup.

Section 10: ADMINISTRATION OF FUNDING AWARDS

2. The chief financial officer will review the grant, contract or amendment thereto and will report any possible errors or observations to the chief executive officer. If the award is acceptable, the chief financial officer will do the following:
 - a. Maintain a file for each grant or contract which will contain all awards, amendments, budgets and special conditions.
 - b. Record budget or update budget in the accounting/financial management system.
 - c. Initiate a request for funds if appropriate or, if cost-reimbursement program, arrange for an advance of funds from the unrestricted fund.
3. The department director will review the grant, contract or amendment thereto and report any possible errors or observations to the chief executive officer. If the award is acceptable, the following procedures will be followed:
 - a. The department director will take steps to implement the program in accordance with the terms of the grant or contract.
 - b. The department director will coordinate with the chief financial officer concerning budgeting, reporting and monitoring of the program.

10.4 Post-Award Procedures

After an award has been made, the following steps shall be taken:

1. Verify the specifications of the grant or contract. The Finance Department shall review the terms, time periods, award amounts and expected expenditures associated with the award. A Catalog of Federal Domestic Assistance (CFDA) number shall be determined for each award, if applicable. All reporting requirements under the contract or award shall be summarized.
2. Create new general ledger account numbers (or segments). New accounts shall be established for the receipt and expenditure categories in line with the grant or contract budget.
3. Gather documentation. A file is established for each grant or contract. The file contains the proposal, all correspondence regarding the grant or contract, the final signed award document and all reports submitted to the funding sources.

Section 10: ADMINISTRATION OF FUNDING AWARDS

10.5 Compliance with Laws, Regulations and Provisions of Awards

Audubon Area Community Services recognizes that as a recipient of Federal funds, the agency is responsible for compliance with all applicable laws, regulations, and provisions of contracts and grants. To ensure that the agency meets this responsibility, the following policies apply with respect to every grant or contract received directly or indirectly from a Federal agency:

1. For each Federal award, an employee within the department responsible for administering the award will be designated as "grant manager". For purposes of this section the grant manager may be the department director or designees. The department director may choose to assign various parts of grants management to various staff members to insure effective management of the grant.
2. Each grant manager shall attend a training on grant management prior to beginning his/her role as a grant manager (or as early in their functioning as a grant manager as practical). In the absence of formal training a staff involved in grant management may be trained internally by other staff familiar with the area. Thereafter, all grant managers shall attend refresher/update courses on grant management every two years.
3. The grant manager shall take the following steps to identify all applicable laws, regulations, and provisions of each grant and contract:
 - a. Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations.
 - b. Review the *2 CFR Part 200 Appendix XI, Compliance Supplement* (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all Federal awards.
 - c. Review the section of the *Catalog of Federal Domestic Assistance* (CFDA) applicable to the award.
 - d. The grants manager will communicate grant requirements to those who will be responsible for carrying them out, or impacted by them.
4. The Finance Department shall forward copies of applicable laws regulations to the grant manager (such as OMB Circulars, pertinent sections of compliance supplements, and other state or local regulations). The Finance Department will also assist departments with monitoring grants as requested or as required.
5. The grant manager and/or the Finance Department shall identify and communicate any special changes in policies and procedures necessitated by Federal awards as a result of the review of each award.

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6. The grant manager, with assistance from the Finance Department, shall take all reasonable steps necessary to identify applicable changes in laws, regulations, and provisions of contracts and grants. Steps taken in this regard shall include, but not be limited to, reviewing subsequent grant and contract renewals, reviewing annual revisions to the *2 CFR Part 200 Appendix XI, Compliance Supplement*, and communications with Federal awarding agency personnel.
7. The grant manager and the Finance Department shall inform the independent auditors of applicable laws, regulations, and provisions of contracts and grants. The grant manager and Finance Department shall also communicate known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

10.6 Close Out of Funding Awards

Audubon Area Community Services shall follow the close out procedures described in *2 CFR Part 200.343-345, Closeout*, and in the grant agreements as specified by the granting agency.

Audubon Area Community Services and all sub-recipients shall liquidate all obligations incurred under the grant or contract within 90 days of the end of the grant or contract agreement unless otherwise specified or required by the granting agency.

10.7 The Audubon Area Grant Management Process [February, 2009]

All new and renewal grants begin with an agency staff person submitting a detailed narrative proposal of what will be done with the requested funding. This process includes the agency's plan as to how the money will be budgeted and spent — oftentimes supplemented with a "budget narrative."

- Get the chief executive officer's approval — and subsequently the Board's approval — to submit a funding proposal, although proposal deadlines, especially for newly announced funding opportunities, sometimes require submissions prior to Board approval.
- Perform a cost-benefit analysis, which may involve HR and IT, to affirm positive agency impact and/or give thoughtful consideration as to whether the grant or contract appropriately fits the agency's existing mix of programs and services.
- Exercise all due diligence to comply with grantors' specifications and requirements, whether programmatic, fiscal or style/presentation/arrangement of the proposal.
- Go the extra mile to maintain sound professional relationships and agency-enhancing interactions with grantor/contractor staff and senior management
- Internally to the agency CEO and Board, divulge potential conflicts of interest, if any.

Funded proposals must be submitted to the agency's Finance Department, which then enters the grant's approved budget into the agency's accounting system.

- The initial vital step in the grant/contract management process is for the project manager and/or department executive to read and become fully informed with the grant/contract document and then establish all necessary means to properly comply with the grantor's relevant terms and to implement and manage the project's budget and services accordingly.

Section 10: ADMINISTRATION OF FUNDING AWARDS

- Scan the signed original of all grant awards and funding contracts into an Adobe Acrobat (PDF) file — along with all related appendices, e-mail it to the executive director, copy (or retain PDF scan) for own use, and provide the signed original of all grant awards and funding contracts to Finance for permanent filing.
- Engage the agency's Finance, Human Resources and Information Technology systems departments as appropriate to implement and integrate new programs/contracts and their staff into the agency matrix.
- Typically with agency grants/contracts, expenditures are reimbursed incrementally by the funding agency as the funded grant work and associated requirements proceed — not with one big check upfront.
- Each grantor allocation of funding/reimbursement is justified by expenditure and/or service activity progress reports.

As the project moves forward, all invoices for direct operational expenses are analyzed, verified, documented, coded and submitted by the program/department to the Finance Department, which may further process and scrutinize them.

- Program directors and/or assigned grant/contract managers will receive regular and continuing feedback from the Finance Department on money in (including invoices to grantors) and money out (credit card billings, vendor invoices and expenditure reports).
- Internal fiscal review(s) will be performed and internal reports generated and circulated by the agency's internal auditor.
- Periodic financial reports, usually monthly or quarterly, are prepared and submitted to the respective grantor's designated official or office and the respective program directors and/or assigned grant/contract managers; corollary programmatic reports prepared by program directors and/or assigned grant/contract managers are typically submitted along with periodic financial reports.
- Other financial and programmatic summary reports are submitted periodically to the Board and/or Board Committees; current regulations also require that specific credit card summary reports be submitted to the Board of Directors.
- Applicable Indirect charges based on salaries paid are processed and charged in the Finance Department.

At the respective agency departments, a manager or assigned grants specialist processes fiscal and programmatic activity reports (and sometimes financial reports) relating to grant expenditures.

- The department director and his/her designee (who is responsible for most of the day-to-day management) will ensure that the funded contract or grant work is actually performed and properly done and reported.

Any spending changes beyond allowable contract scope/authority — such as moving money from one budget category to another — must be approved by the Finance Department and executive director — and sometimes by the Board and/or in conjunction with the funding source as well. In addition:

- Grant/contract funds are, insofar as appropriate, to be expended in such an incremental manner
 - as anticipated in the grant's budget plan and narrative
- If leftover money does remain, grantors may want to know why — and most particularly

Section 10: ADMINISTRATION OF FUNDING AWARDS

whether some of the funded work was not done

- If unexpended grant/contract fund balances may become apparent, program directors and/or assigned grant/contract managers, with the involvement of the CFO and executive director, should devise a timely plan to appropriately utilize the available funding.
- Unless specifically approved in advance by the grantor, “last-minute” equipment requests for equipment from unspent year-end funds are customarily denied.
- When the project is over, the department director must usually submit a final programmatic report and a final financial report is issued by the Finance Department.

During the funded grant period, granting agencies typically review their funded projects periodically, and sometimes conduct project audits of their own. The agency’s top management and its internal auditor(s) may do the same. Although the amount of reporting and monitoring may at times seem burdensome it generally works to provide the most effective means to assure the “deliverables” to the grantor.

Section 11: Cost Sharing and Matching (In-Kind)

11.1 Cost Sharing and Matching (In-Kind) Overview

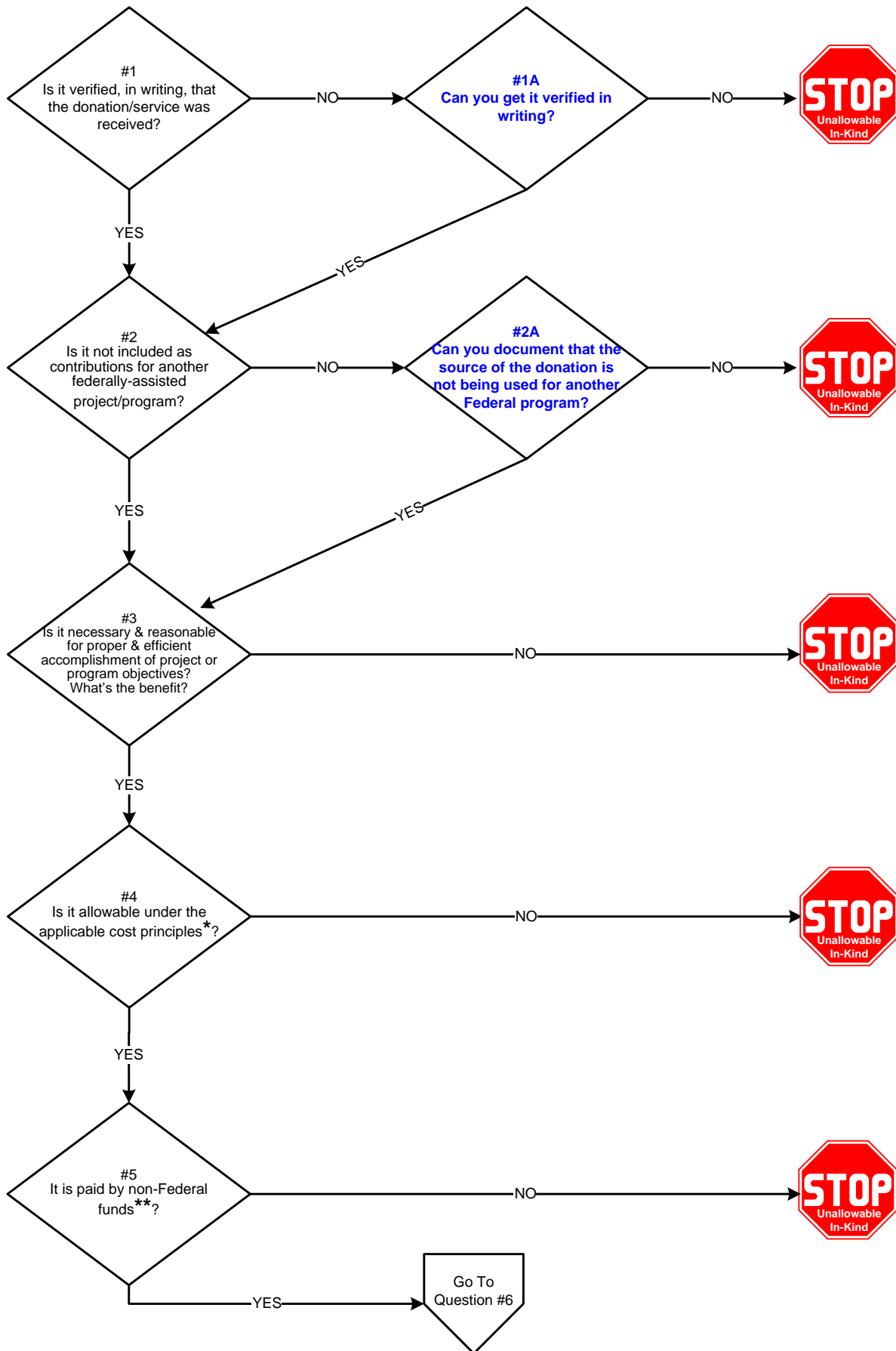
Audubon Area Community Services values contributed services and property that are to be used to meet a cost sharing or matching requirement at their fair market values at the time of contribution, unless award documents or Federal agency regulations identify specific values to be used.

Audubon Area Community Services shall claim contributions as meeting a cost sharing or matching requirement of a Federal award only if all of the following criteria are met:

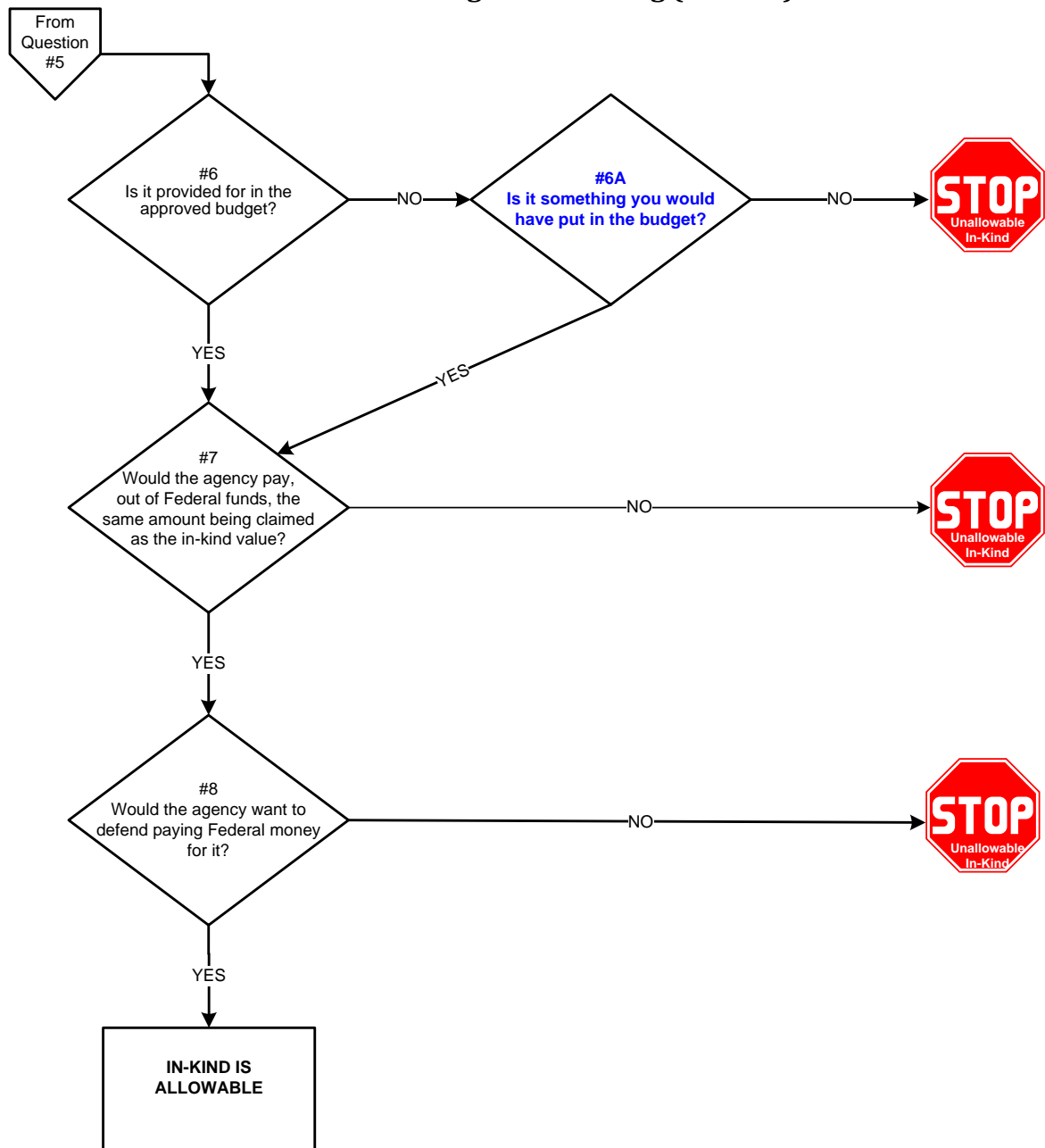
1. They are verifiable from Audubon Area Community Services records.
2. They are not included as contributions for any other Federally-assisted project or program.
3. They are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
4. They are allowable under federal cost principles, *2 CFR Part 200 Subpart E, Cost Principles*.
5. They are not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
6. They are provided for in the approved budget when required by the Federal awarding agency.
7. They conform to all provisions of federal administrative regulations, *2 CFR Part 200 Subpart D, Post Federal Awards Requirements*.
8. In the case of donated space, (or donated use of space), the space is subject to an independent appraisal performed by a certified appraiser as defined by *2 CFR Part 200.306(i)(1)* to establish its value.

The following flowchart should be used to determine the allowability of in-kind.

Section 11: Cost Sharing and Matching (In-Kind)



Section 11: Cost Sharing and Matching (In-Kind)



* 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

** Except where authorized by Federal statute to be used for cost sharing or matching:

Determinations have been made on a case-by-case basis on whether Federal funds from other programs are allowable match for an ACF program. These determinations are based on specific requirements of ACF programs and language in applicable statutes. Specifically:

1. USDA funds are of Federal origin and, therefore, cannot be counted as match.
2. Bureau of Indian Affairs - Indian Self-Determination and Education Assistance Act (P.L. 93-638, as amended). The Act authorizes the use of funds for matching purposes as long as the identified use is specifically related to the approved grant activities.
3. Title XX Social Services Block Grant funds are considered to be Federal funds and, therefore, may not be used as match for ACF programs.
4. Expenditure of funds from the Housing and Community Development Act of 1974, P.L. 93-383 may count as allowable match for a Head Start program for renovation of a building. The determination is dependent on whether or not the Head Start grant is included as part of the "Community Development Program," as required by the Housing and Community Development Act. (Grants Administration Manual, Section 3.05.408(b)(1-4))

Section 11: Cost Sharing and Matching (In-Kind)

11.2 Valuation and Accounting Treatment

In-kind typically falls into one of the following categories:

- Cash
- Space, buildings, land and equipment
- Volunteer time and services
- Supplies
- Collaborations and Agreements

The following sections discuss the valuation and accounting treatment for each category.

Cash

- Audubon Area Community Services shall recognize cash contributions as in-kind income in the period in which they are spent on allowable program costs.
- Any discounts received on goods or services are recognized as in-kind only if such discounts are not available to the general public. Discounts taken as in-kind must be supported by a letter from the contractor stating that it is providing this discount in support of the program.

Space, Buildings, Land and Equipment

Buildings and Land:

If the purpose of the contribution is to assist the agency in the acquisition of equipment, building, or land, the total value of the donated property may be claimed as matching with prior approval of the awarding agency.

If the purpose of the donation is to support activities that require the use of equipment, buildings or land, depreciation or use charges (e.g. rent) may be claimed as matching, unless the awarding agency has approved using the full value as match.

Equipment, buildings or land are valued at its fair market value as determined by an independent appraiser. Information on the date of donation and records from the appraisal will be maintained in a property file.

Space:

- Will be valued at the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality
- Information on the date of donation and records from the appraisal will be maintained in a property file
- If less than an arms-length transaction, will be valued based in actual allowable costs to occupy the facility (e.g. repairs and maintenance, insurance, etc) not to exceed fair market value.

Section 11: Cost Sharing and Matching (In-Kind)

Volunteer Time and Services

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor will be included in in-kind if the services are an integral and necessary part of the program.

Volunteer services will be valued at rates consistent with those paid for similar work in the agency. For skills not found in the agency, rates will be consistent with those paid for similar work in our labor market. Rates should include gross hourly wages plus fringe benefits calculated based on fringe benefits received by employees in similar positions, or on agency average.

Volunteers must possess qualifications and perform work requiring those skills in order to be valued at greater than an unskilled labor rate.

Audubon Area Community Services requires volunteers to document and account for their contributed time in a manner similar to the timekeeping system followed by employees. Each program that uses volunteers will provide the volunteers a sign-in sheet which collects the following information:

- Date service was performed
- Volunteer name and address
- Hours donated
- Service provided
- Signature of volunteer

The Finance Department monitors the in-kind documentation and values on a monthly basis. The Finance Department prepares and enters the journal entries into the accounting system monthly.

Supplies

Donated supplies must be used in the program and shall be valued at fair market value at the time of donation. Supplies can be counted as match only if the program would have purchased such items with federal funds.

Collaborations and Agreements

Audubon Area Community Services enters into several collaborations and agreements with local school districts and other organizations that provide in-kind support and services. These support services are specified within the agreements. Valuing of such services will be consistent with what is specified within the agreement; is paid for similar services within the other organization or within Audubon Area Community Services; and/or with the value specified by a state or local government.

Section 12: Contributions Received

12.1 Contributions Received Overview

Audubon Area Community Services shall accept charitable contributions of all types of assets from any type of donor, with the following exceptions:

1. Contributions of non-liquid assets or assets possessing legal or other characteristics rendering the asset difficult to sell or convert to liquid assets, as determined by the chief financial officer;
2. Contributions with donor-imposed restrictions that provide excessive control to the donor over future uses of the donated asset(s), as determined by the chief financial officer;
3. Contributions with donor-imposed restrictions that violate or involve uses that go beyond the agency's current mission statement and tax-exempt purpose, as determined by the chief financial officer; and
4. Contributions from donors involved in businesses or activities that are deemed inconsistent with Audubon Area Community Services' mission, as determined by the chief executive officer.

12.2 Distinguishing Contributions from Exchange Transactions

Audubon Area Community Services receives income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. Audubon Area Community Services shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. Audubon Area Community Services' intent in soliciting the asset, as stated in the accompanying materials;
2. The expressed intent of the entity providing resources to Audubon Area Community Services (i.e., does the resource provider state that its intent is to support Audubon Area Community Services' programs or that it anticipates specified benefits in exchange?);
3. Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of Audubon Area Community Services (contribution);
4. Whether payment received by Audubon Area Community Services is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by Audubon Area Community Services, or the cost of those assets plus a markup (exchange transaction);

Section 12: Contributions Received

5. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution); and
6. Whether assets are to be delivered by Audubon Area Community Services to individuals or organizations other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or organizations closely connected to the resource provider.

12.3 Donor Privacy

Audubon Area respects the privacy of its donors and also recognizes that donors wish to be connected to the agency. Audubon Area uses donor information to notify them of the information, plans, and activities. Requests to remain anonymous will be honored.

12.4 Unconditional Promises to Give

- Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) in the period that Audubon Area Community Services receives the promise.
- Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management.
- Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value.
- Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to Audubon Area Community Services at the time the agency receives a promise from a donor.
- When the final time or use restriction associated with a contributed asset has been met, a reclassification between net assets with donor restrictions and net assets without donor restrictions shall be recorded.

12.5 Receipts and Disclosures

Audubon Area Community Services and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and the underlying regulations. To comply with those rules, Audubon Area Community Services shall adhere to the following guidelines with respect to contributions received by the agency.

The Finance Department shall provide a receipt to the donor for every separate contribution received. All receipts shall include the following information:

- A. The amount of cash received and/or a description (but not an assessment of the value) of any non-cash property received;
- B. A statement of whether Audubon Area Community Services provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received, and

Section 12: Contributions Received

- C. If any goods or services were provided to the donor by Audubon Area Community Services, a description and good faith estimate of the value of those goods or services.

When Audubon Area Community Services receives cash in excess of \$250, or non-cash property with a value in excess of \$250, as part of a quid pro quo transaction, the agency shall follow additional disclosure procedures. For purposes of this paragraph, a "quid pro quo transaction" is one in which Audubon Area Community Services receives cash or property in a transaction that is part contribution and part exchange transaction (i.e., the value of the goods or services provided to the donor by Audubon Area Community Services is less than the value of cash or property provided by the donor). In such instances, Audubon Area Community Services shall provide to the donor a receipt stating that only the amount contributed in excess of the fair market value of the goods or services provided by Audubon Area Community Services may be deducted as a charitable contribution. The receipt shall also include a good-faith estimate of the fair market value of the goods or services provided to the donor by Audubon Area Community Services.

IRS rules provide for certain exceptions to the preceding disclosure rules applicable to quid pro quo transactions. As such, Audubon Area Community Services shall not provide receipts when it receives cash or property in excess of \$75 in any of the following circumstances:

- A. The goods provided to the donor during 2016 bear Audubon Area Community Services' name or logo and have an aggregate cost of \$10.60 or less and the donor gave the agency at least \$53.00:
- B. The goods provided to the donor in 2016 have a fair market value equal to no more than 2% of the contribution or \$ 106, whichever is less; or
- C. The gift received by Audubon Area Community Services resulted from the agency's 2016 fund-raising appeal that included articles worth no more than \$ 10.60, as well as a request for contributions and a statement that the recipient may keep the article even if a contribution is not made.

The preceding thresholds are adjusted for inflation by the IRS on an annual basis. Inflation adjustments subsequent to 2016 are incorporated into this policy manual by reference.

All estimates of the fair market value of goods or services provided by Audubon Area Community Services shall be prepared by the Finance Department.

An example of a quid pro quo transaction that Audubon Area Community Services may be involved with is when a donor may buy a ticket to a charity party that includes a concert. If the donor pays the charity \$100 and receives a ticket valued at \$40 the donor has made a quid pro quo contribution. In this example the charitable part of the contribution is \$60. In this example the charity must provide a disclosure statement to the donor as the donor's payment to the charity was more than \$75.

Audubon Area Community Services complies with all current Federal and state rules regarding solicitation and collection of charitable contributions, whether specifically addressed in this manual or not, as well as all future revisions to those rules.

Section 12: Contributions Received

12.6 Disclosures of Promises to Give

As stated earlier, Audubon Area Community Services shall record an asset and an increase in net assets for unconditional promises to give. In addition, in connection with its annual financial statements, Audubon Area Community Services shall prepare a schedule of unconditional promises to give that discloses the annual amounts to be collected in each of the next five fiscal years, and a total amount due thereafter, less the amount representing interest as a result of discounting long-term promises to give to net present value.

In connection with conditional promises to give, which shall not be recorded on the financial statements, Audubon Area Community Services shall nonetheless prepare a similar schedule of future payments for disclosure in the agency's annual financial statements.

12.7 Fundraising Requirements

Audubon Area Community Services may participate in fundraising activities to support the agency or its programs. All fundraising activities must be approved by the Board of Directors, the chief executive officer, and the respective department director. Department directors (or designee) shall be responsible for management and implementation of each specific fundraising activity or project. All fundraising activities shall be conducted in compliance with all IRS rules and reporting pertaining to non-profits and with all state and federal regulatory or legal requirements that might apply to such fundraising activities. As a United Way agency, Audubon shall ensure that any fundraising activities are acceptable and in compliance with United Way's solicitation limitations.

12.8 Fundraising Accounting

The chief financial officer (or designee) shall have the responsibility for recording, classifying, summarizing, and reporting transactions and events, and the accounting associated with any fundraising activity. Fundraising accounts should be set up and maintained as separate from other fund or grant accounts. Cash receipts from fundraising activities shall be counted, documented, and deposited in accordance with appropriate internal controls established by the executive director.

12.9 Permitted Fundraising Projects

The following fundraising activities may be considered generally acceptable and within the norms and values of the agency:

- Board-approved deferred gifts and memorials
- Major public sales and/or major special events (raffles, product sales, etc.)
- Limited written appeals by letter or brochure to individuals (not companies, corporations, or employee groups)
- Commercial promotions where promotional costs do not exceed 25% of gross revenue
- Requests from private foundations
- Anonymous charitable gifts
- Approved capital fundraising campaigns (one-time gifts for identified projects)
- Telethons or mass media appeals

Section 13: Billing/Invoicing Policies

13.1 Billing/Invoicing Policies

The agency's primary sources of revenue are:

- Reimbursement grants – billed monthly, or as funders require, based on allowed, incurred expenses.
- Fee-for-service income – billed according to contract requirements based on number of units of services provided.
- Private grants – funds are usually received once funding is approved. Financial expenditure reports, if required, are submitted as required by funding sources.
- Donations/Contributions – may be solicited or unsolicited.

Other lesser sources of income such as transportation fees, meal charges or child care fees will be collected and recorded when the services are provided.

13.2 Responsibilities for Billing and Collection

Audubon Area Community Services' Finance Department is responsible for the invoicing of funding sources and the collection of outstanding receivables. (Note: Cash receipts, credit memo, and collection policies will be discussed in subsequent sections.)

13.3 Billing and Financial Reporting

Audubon Area Community Services strives to provide management, staff and funding sources with timely and accurate financial reports applicable to all awards. These reports include monthly and cumulative expenditures, a project budget, and a balance remaining column.

Audubon Area Community Services shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports shall be the responsibility of fiscal manager, subject to review and approval by chief financial officer.

The following policies shall apply to the preparation and submission of billings to Federal agencies under awards made to Audubon Area Community Services:

1. The agency will request reimbursement after expenditures have been incurred, unless an award specifies another method.
2. Audubon Area Community Services will strive to minimize the time between receipt and disbursement of grant funds by issuing payments within 72 hours of receipt of such funds where applicable.
3. Each award normally specifies a particular billing cycle. Therefore, a schedule is established for each grant and contract to ensure that reimbursement is made on a timely basis along with any other reporting that is required in addition to the financial reports.
4. Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.

Section 13: Billing/Invoicing Policies

5. All financial reports required by each award will be prepared and filed on a timely basis. To the extent Audubon Area Community Services' year-end audit results in adjustments to amounts previously reported to agencies, revised reports shall be prepared and filed in accordance with the terms of each Federal award.

Audubon Area Community Services shall maintain separate billing records in addition to the official general ledger accounting records. Billing records shall be reconciled to the general ledger on a monthly basis.

At the time invoices (requests for reimbursement) are prepared, revenue and accounts receivable shall be recorded on the books of Audubon Area Community Services by the Billing & Receivables Coordinator.

If a Federal award authorizes the payment of cash advances to Audubon Area Community Services, the chief financial officer may require that a request for such an advance be made. Upon receipt of a cash advance from an agency, Audubon Area Community Services shall reflect a liability equal to the advance. As part of the monthly close-out and invoicing process, the liability shall be reduced, and revenue recognized, in an amount equal to the allowable costs incurred for that period.

13.4 Cash Drawdowns of Federal Funds Advances

Cash drawdowns of advances from Federal agencies shall be made in conjunction with the accounts payable and payroll schedule, based on need. All Federal funds shall be deposited into an interest-bearing cash account under the cash receipts policies and procedures described in this manual. Audubon Area Community Services requires that Federal funds will be disbursed within three business days of receipt.

13.5 Accounts Receivable Entry Policies

Billing & Receivables Coordinator shall post customer invoices, credit adjustments, and other adjustments to the accounts receivable subsidiary ledger.

13.6 Classification of Income and Net Assets

All income received by Audubon Area Community Services is classified as "without donor restrictions," with the exception of the following:

1. Grants and other awards received from government agencies or other grantors, which are restricted and have not been released through the performance of program services or the passage of time.
2. Special endowments received from donors requesting that these funds be permanently restricted for specific purposes.
3. Income earned from endowment funds (e.g., interest and dividends, gains and losses) in connection with endowments where the donor has explicitly stated that earnings on an endowment be restricted for specific purposes or for which the Board has interpreted the

Section 13: Billing/Invoicing Policies

relevant Kentucky Uniform Prudent Management of Institutional Funds Act (KRS 273.600-645) law as preserving the earnings on donor endowments as restricted.

From time to time, Audubon Area Community Services may raise other forms of contribution income which carry stipulations that the agency utilize the funds for a specific purpose or within a specified time period identified by the donor of the funds. When this form of contribution income is received, Audubon Area Community Services shall classify this as income with donor restrictions.

As with all net assets with donor restrictions, when the restriction associated with a contribution has been met (due to the passing of time or the use of the resource for the purpose designated by the donor), Audubon Area Community Services will reclassify the related net assets from "net assets with donor restrictions" to "net assets without donor restrictions" in its Statement of Financial Position and reflect this reclassification as an activity in its Statement of Activities.

Income received with donor restrictions may be reported as income without donor restrictions if the restrictions are met in the same reporting period.

From time-to-time, the Audubon Area Community Services Board of Directors may determine that it is appropriate to set funds aside for specific projects. Such funds shall be classified as "net assets without donor restrictions," labeled "Board-Designated," and reported as a separate component of net assets.

Section 14: Cash Receipts

14.1 Cash Receipts Overview

Cash is the most liquid asset an agency has. Therefore, it is the objective of Audubon Area Community Services to establish and follow the strongest possible internal controls in this area.

14.2 Processing of Checks and Cash Received in the Mail

The mail is sorted and routed to the various programs and departments. All mail for the Finance Department is opened by the Finance Coordinator or designee, stamped with the current date and forwarded to the chief executive officer and/or chief financial officer for review and distribution.

1. All cash, checks and other forms of legal tender are logged by Financial Coordinator or designee and then forwarded to the Billing & Receivables Coordinator.
2. Payroll and Unemployment information is forwarded to the payroll coordinator.
3. Health Insurance and employee benefit statements are forwarded to the payroll coordinator.
4. Vendor statements, invoices, telephone bills, etc. are forwarded to the Payables Coordinator or appropriate department personnel.
5. Personnel information, resumes, employment applications, changes of name/address, employment verification are forwarded to Human Resources.
6. Unopened bank statements are forwarded to the chief executive officer

14.3 Endorsement of Checks

All checks received that are payable to the agency shall immediately be restrictively endorsed by the individual who prepares the daily receipts listing. The restrictive endorsement shall be a rubber stamp that includes the following information:

1. For Deposit Only
2. Audubon Area Community Services

14.4 Timeliness of Bank Deposits

Bank deposits will be made on a daily basis, unless the total amount received for deposit is less than \$500. In no event shall deposits be made less frequently than weekly. Undeposited checks and cash shall be maintained in a safe and kept in a secure area until deposited. Such cash will not be used as petty cash or to make change.

Section 15: Grants Receivable Management

15.1 Monitoring and Recognition

Audubon Area Community Services records grants receivable and income as it is earned and billed during the grant year. Program management along with chief financial officer and/or designee(s) will monitor budget-to-actual expenditures throughout the grant year and will frequently discuss the fiscal results.

Section 16: Accounts Receivable Management

16.1 Monitoring and Reconciliations

On a monthly basis, the Finance Department will reconcile a detailed accounts receivable report (showing aged, outstanding invoices by customer) to the general ledger. The chief financial officer will review the reconciliation and ensure that all differences are immediately investigated and resolved.

16.2 Credits and Other Adjustments to Accounts Receivable

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include returned products and adjustments for billing errors. An employee who is independent of the cash receipts function will process credits and adjustments to Accounts Receivable, and all credits shall be authorized by the chief financial officer or designee(s).

16.3 Accounts Receivable Write-Off Authorization Procedures

All available means of collecting accounts receivable will be exhausted before write-off procedures are initiated. Write-offs are initiated by the department associated with the amount to be written off, in conjunction with the Finance Department and are authorized by the chief financial officer or designee(s).

Once a write-off has been processed, appropriate individuals in the originating department will be advised so that further credit is not granted and to update the master list of bad accounts. Customers listed as poor credit risks will be extended future credit only if the back debt is paid and the customer is no longer deemed a collection problem.

If write-off procedures have been initiated, the following accounting treatment applies:

1. Current year invoices that are written off will either be charged against an appropriate revenue or revenue adjustment account, or against the original account credited.
2. Invoices written off that are dated prior to the current year will be written off against net assets.

Section 17: Purchasing Policies and Procedures

17.1 Purchasing Policies and Procedures Overview

THE POLICIES DESCRIBED IN THIS SECTION APPLY TO ALL PURCHASES MADE BY AUDUBON AREA COMMUNITY SERVICES.

Audubon Area Community Services requires the practice of ethical, responsible, and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

The goal of these procurement policies is to ensure that materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders.

17.2 Responsibility for Purchasing

All department directors or their designees shall have the authority to initiate purchases on behalf of their department, within the guidelines described here. Department directors shall inform the Finance Department of all individuals that may approve purchases and/or purchase orders. The Finance Department shall maintain a current list of all authorized purchasers.

The department directors are primarily responsible for compliance with the agency's Procurement Standards and any other specific grant on contract requirements. The chief executive officer, chief financial officer and the financial coordinator will provide consultation regarding the agency's procurement standards and are responsible for monitoring compliance with these standards.

The agency will provide in all contracts a provision that contractors will comply with the terms, conditions, and the specifications of the contract or order. The department director and/or designee will monitor the contract or order and provide timely follow-up of any violations.

17.3 Code of Conduct in Purchasing (2 CFR Part 200.318 (c)(1))

Ethical conduct in managing the agency's purchasing activities is absolutely essential. Staff must always be mindful that they represent the Board of Directors and share a professional trust with other staff and the general membership.

- Officers, Board members, employees, or agents shall discourage the offer of, and decline, individual gifts or gratuities of value in any way that might influence the purchase of supplies, equipment, and/or services and shall notify their immediate supervisor if they are offered such gifts.
- No officer, Board member, employee, or agent shall participate in the selection or administration of a contractor if a real or apparent conflict of interest would be involved. Such a conflict would arise if an officer, board member, employee or agent, or any member of his/her immediate family, his/her spouse/partner, or an agency that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the contractor selected. [See Section 4]

Section 17: Purchasing Policies and Procedures

- Officers, Board members, employees, and agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to sub-agreements.
- Unsolicited gifts of a nominal value of \$50.00 or less may be accepted with the approval of the chief executive officer.
- Any violation of these standards of conduct may result in disciplinary action. (*PPPM Section 6.7*)

17.4 Competition (2 CFR Part 200.319(b))

In order to promote open and full competition, purchasers will:

- Be alert to any internal potential conflicts of interest.
- Be alert to any noncompetitive practices among contractors that may restrict, eliminate or restrain trade.
- Not permit contractors who develop specifications, requirements or proposals to bid on such procurements.
- Award contracts to bidders whose product/service is most advantageous in terms of price, quality and other factors.
- Issue solicitations that clearly set forth all requirements to be evaluated.
- Reserve the right to reject any and all bids when it is in the agency's best interest.
- Not give preference to state or local geographical areas unless such preference is mandated by Federal statute.
- "Name brand or equivalent" description may be used as a means to define the performance or requirements.
- Noncompetitive procurements will only be awarded in accordance with section 17.19 of this manual.

17.5 Non-Discrimination Policy

All contractors who are the recipients of agency funds, or who propose to perform any work or furnish any goods under agreements with Audubon Area Community Services, shall agree to these important principles:

1. Contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the contractors.
2. Contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause. Notices, advertisement and solicitations placed in accordance with Federal law, rule, or regulation shall be deemed sufficient for meeting the intent of this section.

Section 17: Purchasing Policies and Procedures

17.6 Procurement Procedures

The following are Audubon Area Community Services' procurement procedures:

1. Audubon Area Community Services shall avoid purchasing items that are not necessary or duplicative for the performance of the activities required by a Federal, state or other award. *(2 CFR Part 200.318(d))*
2. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the grantor. *(2 CFR Part 200.318(d))* This analysis should only be made when both lease and purchase alternatives are available to the program.
3. Purchasers are encouraged to enter into state and local inter-governmental or inter-entity agreements where appropriate for procurement or use of common or shared goods and services. *(2 CFR Part 200.318 (e))*
4. Purchasers are encouraged to use Federal excess and surplus property in lieu of purchasing new equipment and property whenever such use is feasible and reduces project costs. *(2 CFR Part 200.318(f))*
5. Some form of cost or price analysis shall be made for every procurement. Price analysis may be made in various ways, including comparison of price quotations from catalogs, newspaper advertisements, phone quotes, faxed quotes, internet searches, or market prices. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.
6. Cost or price analysis for routine supplies such as office supplies, classroom supplies, specific types of equipment, etc. may be performed at the beginning of the year to identify vendors to be used for the entire year for such supplies or equipment. This cost/price analysis shall be made by items in total and not by individual items. Such approved vendors shall be published annually and disseminated to authorized purchasers. Purchases of such supplies from the approved vendors require no additional cost or price analysis.
7. Documentation of the cost or price analysis associated with each procurement decision in excess of the internal micro-purchase threshold (\$3,500) shall be retained in the procurement files pertaining to each award.
8. All pre-qualified lists of persons, firms, or products which are used in acquiring goods and services must be current and include enough qualified sources to ensure maximum open and full competition. *(2 CFR Part 200.319(e))*
9. Audubon Area will maintain records sufficient to detail the history of procurement, including: *(2 CFR Part 200.318(i))*
 - a. Rationale for the method of procurement;
 - b. Selection of contract type;
 - c. Contractor selection or rejection; and
 - d. The basis for the contract price.

Section 17: Purchasing Policies and Procedures

10. Audubon Area Community Services shall make all procurement files available for inspection upon request by a Federal awarding agency.

11. Audubon Area Community Services shall not utilize the “cost-plus-a-percentage-of-costs” method of contracting. (2 CFR Part 200.324(d))

All staff members with the authority to approve purchases must be familiar with 2 CFR Part 200.400-475, *Cost Principles*.

17.7 Purchase Documentation

All departments shall be required to submit to the Finance Department purchase documentation that shall contain, at a minimum, the following information:

- An original invoice or receipt that includes specifications, descriptions, or statement of services provided; vendor name; date of purchase; and total amount of purchase.
- Authorized approval(s)
- Appropriate Account Codes

For departments utilizing the accounting software Purchase Order system, the purchase order number may be written on the invoice or receipt or a copy of the purchase order may be attached to the original invoice or receipt. The accounting software Purchase Order process insures electronic approvals by authorized persons at appropriate authorization levels and includes all account allocation information. For purchases in which the accounting software Purchase Order system is not used, the Finance Department must ensure that all appropriate authorizations and account codes are provided in writing for such purchases.

17.8 Authorizations and Purchasing Limits

Each department director shall provide purchase authorization guidelines in writing that shall identify each department employee who shall have purchasing approval authority and shall designate the purchasing limits of such authority. These written authorization guidelines must be submitted to and approved by the chief executive officer. Upon approval by the chief executive officer, this authorization form shall be maintained by the Finance Department and shall establish the approval authority and levels for department employees. The Information Technology Department shall maintain approval authorization and authorization levels within the accounting software purchase order system in accordance with the written authorization guidelines. The accounting software system will digitally require the appropriate approvals on all electronic purchase orders. This approval process shall be established as a part of the security system within accounting software and shall serve as an electronic signature for authorized approval of purchases. For departments not using the accounting software purchase order system, original authorized approval signatures will be required on purchase documentation prior to processing for payment.

The chief executive officer is authorized to enter into any contract on behalf of Audubon Area Community Services. Contracts of \$5,000 or less which do not obligate the agency beyond the current fiscal year may be reviewed and approved by the department director. All other contracts must be approved by the chief executive officer in writing. The chief executive officer may authorize others to approve certain contracts.

Section 17: Purchasing Policies and Procedures

17.9 Competitive Procurement Requirements

All procurement transactions must be conducted in a manner that provides, to the maximum extent practical, open and full competition. The type of cost or price analysis for procurement transactions shall be determined based on price thresholds for individual items unless contract or grant award specifies a more stringent requirement [See also Section 17.19]. Price analysis on a product or item needs to be conducted only once per year retaining the information in the procurement file for future reference. If a higher price is chosen, indicate the reason for the choice. Where a written record is required, the required information may be either included with the purchase documentation and/or maintained in a separate procurement file.

However, specific programs must defer to specific program guidance such as Title 45 CFR Part 75, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards for Head Start.

Competitive Procurement will be in accordance with the following:

1. Items under \$3,500 the agency's internal micro-purchase threshold — A department director or other designated staff authorized to approve purchases may place an order based on personal judgment resulting from informal price comparisons. And, to the maximum extent practicable, micro-purchases will be equitably distributed among qualified suppliers, provided that pricing reasonable.
2. Items of \$3,501 — \$25,000 – Quotations from at least three vendors if at all possible should be obtained from catalogs, newspaper advertisements, phone quotes, faxed quotes, internet searches, or market prices. A written record will be made of prices quoted.
3. Items over \$25,001 — Formal written quotations or bids should be obtained from at least three vendors or suppliers. Where applicable, the agency shall procure goods and services in accordance with federal/state procedure for sealed bids, competitive proposal, or noncompetitive proposal. Further, procurement records and files for purchases in excess of \$25,001 shall include the basis for contractor selection and the basis for award cost or price.

17.10 Required Solicitation of Quotations from Contractors

Solicitations for goods and services (requests for proposals or RFPs) should provide for all of the following:

1. A clear and accurate description of the technical requirements for the material, product or service to be procured. Descriptions shall not contain features which unduly restrict competition. *(2 CFR Part 200.319(d)(1))*
2. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals (see the next section entitled "Evaluation of Alternative Contractors" for required criteria) *(2 CFR Part 200.319(d)(2))*
3. Technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards. *(2 CFR Part 200.319(d)(1))*

Section 17: Purchasing Policies and Procedures

4. The specific features of "brand name or equal" descriptions that bidders are required to meet when appropriate. *(2 CFR Part 200.319(d)(1))*
5. A description of the format, if any, in which proposals must be submitted, including the name of the person to whom proposals should be sent.
6. The date by which proposals are due.
7. Required delivery or performance dates/schedules.
8. Clear indications of the quantity(ies) requested and unit(s) of measure.

17.11 Extensions of Due Dates and Receipt of Late Proposals

Solicitations should provide for sufficient time to permit the preparation and submission of offers before the specified due date. However, an extension may be granted if a prospective offeror so requests.

Contractor proposals are considered late if received after the due date and time specified in the solicitation. Late proposals shall be so marked on the outside of the envelope and retained, unopened, in the procurement folder. Contractors that submit late proposals shall be sent a letter notifying them that their proposal was late and could not be considered for award.

17.12 Evaluation of Alternative Contractors

Contractors shall be evaluated on a weighted scale that considers some or all of the following criteria as appropriate for the purchase:

1. Adequacy of the proposed methodology
2. Skill and experience of key personnel
3. Demonstrated experience
4. Other technical specifications designated by department requesting proposals
5. Compliance with administrative requirements of the request for proposal (format, due date, etc.)
6. Contractor's financial stability
7. Contractor's demonstrated commitment to the nonprofit sector
8. Results of communications with references supplied by contractor
9. Ability/commitment to meeting time deadlines
10. Cost
11. Minority- or women-owned business status of vendor
12. Other criteria (to be specified by department requesting proposal)

Not all of the preceding criteria may apply in each purchasing scenario. However, the department responsible for the purchase shall establish the relative importance of the appropriate criteria prior to requesting proposals and shall evaluate each proposal on the basis of the criteria and weighting that have been determined.

After a contractor has been selected and approved by the department director and/or designee, the final selection shall be approved by the chief financial officer.

Section 17: Purchasing Policies and Procedures

17.13 Affirmative Consideration of Minority, Small Business, Women-Owned Businesses, and Labor Surplus Area Firms

Positive efforts shall be made by Audubon Area Community Services to utilize small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms, if appropriate, whenever possible. Therefore, the following steps shall be taken:

1. Ensure that small business, minority-owned firms, and women's business enterprises, and labor surplus area firms, if appropriate are used to the fullest extent practicable. *(2 CFR Part 200.321)*
2. Make information on forthcoming opportunities available and arrange time frames for purchases and contracts to encourage and facilitate participation by small business, minority-owned firms, women's business enterprises, and labor surplus area firms, if appropriate. *(2 CFR Part 200.321(b)(4))*
3. Consider in the contract process whether firms competing for larger contracts tend to subcontract with small businesses, minority-owned firms, women's business enterprises, and labor surplus area firms, if appropriate. *(2 CFR Part 200.321(b)(6))*
4. Encourage contracting with consortiums of small businesses, minority owned firms, women's business enterprises, and labor surplus area firms, if appropriate, when a contract is too large for one of these firms to handle individually. *(2 CFR Part 200.321(b)(3))*
5. Use the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Department of Commerce's Minority Business Development Agency in the minority-owned firms and women's business enterprises. *(2 CFR Part 200.321(b)(5))*

17.14 Availability of Procurement Records (2 CFR Part 200.325)

Audubon Area Community Services shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as requests for proposals, when any of the following conditions apply:

- The process does not comply with the procurement standards in *2 CFR Part 200*.
- The procurement is expected to exceed the Simplified Acquisition Threshold (SAT) (\$250,000) and is to be awarded without competition or only one bid is received.
- The procurement exceeds the simplified acquisition threshold and specifies a "name brand" product.
- The proposed award exceeds the federally-defined simplified acquisition threshold and is to be awarded to other than the apparent low bidder under the sealed bid procurement.
- A proposed contract modification changes the scope of a contract or increases the contract amount by more than the amount of the simplified acquisition threshold.

Section 17: Purchasing Policies and Procedures

17.15 Provisions Included in All Contracts (2 CFR Part 200 Appendix II)

Audubon Area Community Services includes all of the following provisions, as applicable, in all contracts charged to Federal awards with contractors and sub-grants to grantees:

1. Contracts for more than the SAT, which is the inflation adjusted amount determined by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council (Councils) as authorized by 41 U.S.C 1908, must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate.
2. All contracts in excess of \$10,000 must address termination for cause and for conveniences by the non-Federal entity including the manner by which it will be effected and the basis for settlement.
3. **Equal Employment Opportunity:** Except as otherwise provided under 41 CFR Part 60, all contracts that meet the definition of “federally assisted construction contract” in 41 CFR Part 60-1.3 must include the equal opportunity clause provided under 41 CFR 60-1.4(b), in accordance with Executive Order 11246, “Equal Employment Opportunity” (30 FR 12319, 12935, 3 CFR Part, 1964-1965 Comp., p. 339), as amended by Executive Order 11375, “Amending Executive Order 11246 Relating to Equal Employment Opportunity,” and implementing regulations at 41 CFR part 60, “Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor.”
4. **Davis-Bacon Act, as amended (40 U.S.C.3141-3148):** If included in the Federal agency’s grant program legislation, all construction contracts of more than \$2,000 awarded by Audubon Area Community Services and its sub-recipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C.3141-3144 and 3146-3148) and as supplemented by Department of Labor regulations (29 CFR part 5, “Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction”). Under this Act, contractors are required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. Audubon Area Community Services will place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. Audubon Area Community Services shall also obtain reports from contractors on a weekly basis in order to monitor compliance with the Davis-Bacon Act. Audubon Area Community Services shall report all suspected or reported violations to the Federal awarding agency.

Section 17: Purchasing Policies and Procedures

5. **Contract Work Hours and Safety Standards Act (40 U.S.C. 3701-3708):** Where applicable, all contracts awarded by the non-Federal entity in excess of \$100,000 that involve the employment of mechanics or laborers must include a provision for compliance with 40 U.S.C. 3702 and 3704, as supplemented by Department of Labor regulations (29 CFR Part 5). Under 40 U.S.C. 3702 of the Act, each contractor must be required to compute the wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than one and a half times the basic rate of pay for all hours worked in excess of 40 hours in the work week. The requirements of 40 U.S.C. 3704 are applicable to construction work and provide that no laborer or mechanic must be required to work in surroundings or under working conditions which are unsanitary, hazardous or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
6. **Rights to Inventions Made Under a Contract or Agreement:** If the Federal award meets the definition of “funding agreement” under 37 CFR Sec. 401.2 (a) and the recipient or subrecipient wishes to enter into a contract with a small business firm or nonprofit organization regarding the substitution of parties, assignment or performance of experimental, developmental, or research work under that “funding agreement,” the recipient or subrecipient must comply with the requirements of 37 CFR Part 401, “Rights to Inventions Made by Nonprofit Organizations and Small Business Firms Under Government Grants, Contracts and Cooperative Agreements,” and any implementing regulations issued by the awarding agency.
7. **Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended:** Contracts and sub-grants of amounts in excess of \$150,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations shall be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
8. **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or sub-grants of \$100,000 or more, Audubon Area Community Services shall obtain from the contractor or sub-grantee a certification that it will not and has not used Federal appropriated funds to pay any person or agency for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Likewise, since each tier provides such certifications to the tier above it, Audubon Area Community Services shall provide such certifications in all situations in which it acts as a sub-recipient of a sub-grant of \$100,000 or more.
9. **Debarment and Suspension (E.O.s 12549 and 12689):** No contract shall be made to the parties listed on the government-wide Excluded Parties List System in the System for Award Management (SAM). The list of excluded parties can be found at www.sam.gov.

Section 17: Purchasing Policies and Procedures

- 10. Copeland Anti-Kickback Act (40 U.S.C. 3145):** As supplemented by Department of Labor regulations (29 CFR Part3, “Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States”). For construction or repair contracts in excess of \$2,000, the Act provides that each contractor or subrecipient must be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. The agency must report all suspected or reported violations to the Federal awarding agency.
- 11. Domestic Preferences for Procurement (2 CFR 200.322):** See Section 17.17 of this manual.

17.16 Prohibition on Certain Telecommunications and Video Surveillance Contractors (2 CFR 200.216)

Federal award recipients and subrecipients are prohibited from procuring or entering into a contract (or extend or renew a contract) to procure or obtain equipment, services, or systems that uses covered telecommunications equipment or services as a substantial or essential component of any system, or as critical technology as part of any system produced by Huawei Technologies Company or ZTE Corporation (or any subsidiary or affiliate of such entities).

For the purpose of public safety, security of government facilities, physical security surveillance of critical infrastructure, and other national security purposes, video surveillance and telecommunications equipment produced by Hytera Communications Corporation, Hangzhou Hikvision Digital Technology Company, or Dahua Technology Company (or any subsidiary or affiliate of such entities).

17.17 Domestic Preferences (2 CFR 200.322)

As appropriate and to the extent consistent with law, the agency should provide preference to procure goods, products, or materials produced or manufactured in the United States.

17.18 Bonding (2 CFR 200.326)

For construction or facility improvement contracts exceeding the SAT, the agency may require bonding when deemed necessary to help ensure the interests of the agency and grant awarding agency are protected as determined by the Federal award agency or pass-through grant award agency. Minimum bonding requirements will include the following:

- A bid guarantee in the form of a bid bond, certified check, or other negotiable instrument from each bidder equivalent to five percent of the bid price assuring that the bidder will, upon acceptance of the bid, execute such contractual documents as may be required within the time specified.
- A performance bond on the part of the contractor for 100 percent of the contract price, to be executed in connection with a contract to secure fulfillment of all the contractor’s requirements under the contract.
- A payment bond for 100 percent of the contract price, executed in connection with a contract to assure payment as required by law of all persons supplying labor and material in execution of the work provided for in the contract.

Section 17: Purchasing Policies and Procedures

17.19 Non-Competitive Purchases

Emergencies:

Where equipment, materials, parts, and/or services are needed, quotations will not be necessary if the health, welfare, safety, etc., of staff and protection of agency property is involved.

Single Distributor/Source:

Sole source purchases may be used only when one or more of the following conditions apply:

- The item or service is only available from a single source;
- The situation is an emergency and will not permit a delay resulting from competitive solicitation;
- The awarding agency expressly authorizes noncompetitive proposals in response to a written request; or
- After solicitation, competition is deemed inadequate (insufficient bidders).

Internal Micro-Purchase Threshold

The aggregate amount of the procurement does not exceed the agency's internal micro-purchase threshold as stated in Section 17.9 of this manual.

Approval from the awarding agency may be required.

17.20 Right to Audit Clause

Audubon Area Community Services requires a "Right to Audit" clause in all contracts between the agency and contractors that either:

1. Take any form of temporary possession of assets directed for the agency, or
2. Process data that will be used in any financial function of the agency.

This Right to Audit clause shall permit access to and review of all documentation and processes relating to the contractor's operations that apply to Audubon Area Community Services, as well as all documents maintained or processed on behalf of Audubon Area Community Services, for a period of three years.

The clause shall state that such audit procedures may be performed by Audubon Area Community Services employees or any outside auditor or contractor designated by the agency.

17.21 Contractor Files and Required Documentation

The Finance Department shall create a contractor folder for each new contractor from whom Audubon Area Community Services purchases goods or services.

The Finance Department's contractor packet shall be completed by new contractors prior to payment processing as instructed by requesting department. Completed, signed Forms W-9 or substitute documentation shall be filed in each contractor's folder. Contractors who do not comply with this request shall be issued a Form 1099 at the end of each calendar year in accordance with the policies described in the section of this manual on "Government Returns" (Section 38). See the section on "Payroll and Related Policies" (Section 25) for guidance on determining whether a contractor should be treated as an employee.

Section 17: Purchasing Policies and Procedures

17.22 Receipt and Acceptance of Goods

Upon receipt of any item from a contractor, the following actions shall immediately be taken:

1. Review bill of lading for correct delivery point
2. Verify the quantity of boxes/containers with the bill of lading
3. Examine boxes/containers for exterior damage and note on the bill of lading any discrepancies (missing or damaged boxes/containers, etc.)
4. Sign and date the bill of lading
5. Remove the packing slip from each box/container
6. Compare the description and quantity of goods per the purchase order to the packing slip
7. Examine goods for physical damage
8. Count or weigh items, if appropriate, and record the counts on the purchase order or requisition

This inspection must be performed in a timely manner to facilitate prompt return of goods and/or communication with contractors.

17.23 Mailing and Postage

Postage in the central office is handled by the receptionist. Staff should drop off outgoing mail in the designated area in the central office. Staff should not attempt to place postage on outgoing mail themselves. Postage rates have become more complicated and determining the proper rates requires some specific knowledge about the postal system. The receptionist will charge postage to the appropriate program as the mail is metered and stamped.

Each location shall designate a staff person to handle the outgoing postage for that location. Departments should use bulk mailing whenever possible. No personal usage of Audubon Area Community Services postage or postage equipment is allowed. Staff is to use Inter-Department Delivery envelopes for any inter-office transmittals whenever possible. Plan mailings so that staff traveling between Audubon locations may take the transmittals along with them.

Section 18: Political Intervention

18.1 Prohibited Expenditures

Consistent with its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, Audubon Area Community Services shall not incur any expenditure for political intervention. For purposes of this policy, political intervention shall be defined as any activity associated with the direct or indirect support or opposition of a candidate for elective public office at the Federal, state or local level. Examples of prohibited political expenditures include, but are not limited to, the following:

1. Contributions to political action committees
2. Contributions to the campaigns of individual candidates for public office
3. Contributions to political parties
4. Expenditures to produce printed materials (including materials in periodicals) that support or oppose candidates for public office
5. Expenditures for the placement of political advertisements in periodicals

18.2 Endorsements of Candidates

Audubon Area Community Services will not endorse any candidates for public office in any manner, either verbally or in writing. This policy extends to the actions of management and other representatives of Audubon Area Community Services, when these individuals are acting on behalf of, or are otherwise representing, the agency.

18.3 Prohibited Use of Agency Assets and Resources

No assets or human resources of the agency shall be utilized for political activities, as defined above. This prohibition extends to the use of agency assets or human resources in support of political activities that are engaged in personally by board members, members of management, employees, or any other representatives of Audubon Area Community Services. While there is no prohibition against these individuals engaging in political activities personally (on their own time, and without representing the agency), these individuals must at all times be aware that agency resources cannot at any time be utilized in support of political activities.

Section 19: Lobbying

19.1 Lobbying

Unlike political intervention, described in the preceding section, expenditures by a section 501(c)(3) public charity for lobbying activities are allowable under the Internal Revenue Code. However, **no** lobbying expenditures may be charged directly or indirectly to any Federal award (i.e., the charity must have a non-Federal source of income to which such lobbying costs can be cited as the source of the activity).

19.2 Definition of Lobbying Activities

Lobbying activities conducted by the agency may be either direct or indirect. Direct lobbying activities consist of attempts to influence legislation through communication with any member or employee of a legislative body (Federal, state, or local levels) or, if the principal purpose of the communication is lobbying, with any government official or employee who may participate in the formulation of the legislation. Direct lobbying occurs when employees of the agency or paid lobbyists communicate directly in attempts to influence legislation. Lobbying is distinguishable from advocacy activities, which involve efforts to advocate certain positions which may have legislative implications, as long as a nonpartisan analysis of the relevant facts is performed.

Lobbying occurs only when there is a specific piece of legislation or legislative proposal pending that the agency is attempting to influence. Therefore, lobbying is considered to have taken place only if both of the following elements are present:

1. The communication refers to specific legislation (legislation that has been introduced or a specific legislative proposal that the agency supports or opposes), and
2. The communication reflects a view on the legislation (supporting or opposing it).

Indirect lobbying involves communications with the general public (rather than directly with legislators, etc.) where the communication includes the same two preceding characteristics, plus it encourages the recipient of the communication to take action with respect to the specific legislation (by contacting legislators, etc.).

19.3 Segregation of Lobbying Expenditures

Lobbying expenditures are allowable for charities under the Internal Revenue Code. However, lobbying may not represent a substantial portion of the agency's overall activities. The agency's tax exemption would be at risk if lobbying becomes a substantial portion of the agency's activities.

Accordingly, Audubon Area Community Services segregates all direct and indirect lobbying expenditures in a separate section of the chart of accounts in the general ledger. Where appropriate, lobbying expenditures shall also be allocated their fair and reasonable share of employee benefits and other indirect costs in accordance with cost allocation policies described elsewhere in this manual.

Section 19: Lobbying

19.4 Lobbying Election

As a public charity, the agency has two options with respect to the Internal Revenue Code's restriction against lobbying being a "substantial" portion of its activities. One option is to make a formal lobbying election, which results in the agency following a specific mathematical formula to determine its lobbying limitations. Exceeding the limitation would result in an excise tax assessed to the agency. Exceeding the limitation by 50-percent or more over a four-year period would result in loss of the agency's overall tax exemption. The other option is to not make the election, resulting in an entirely judgmental assessment of its lobbying activities by the IRS. If it is deemed by the IRS to have engaged in substantial lobbying for any period, the agency would lose its overall tax exemption under this option.

If Audubon Area Community Services incurs lobbying expense, it will make the Internal Revenue Code section 501(h) lobbying election by filing Form 5768, and leave that election in place. As a result, the agency shall report its lobbying expenditures by completing the section for "Electing Charities" on Schedule A that accompanies its annual Form 990 information return filed with IRS.

Section 20: Charging of Costs to Federal Awards

20.1 Charging of Costs to Federal Awards Overview

Audubon Area Community Services charges costs that are reasonable, allowable, and allocable to a Federal award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to Federal awards.

20.2 Segregating Unallowable from Allowable Costs

The following steps shall be taken to identify and segregate costs that are allowable and unallowable with respect to each Federal award:

1. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.
2. Accounting personnel, including those program staff responsible for coding of invoices, shall be familiar with the allowability of costs provisions of 2 CFR Part 200.400-475, Cost Principles, 2 CFR Part 200.400-475, Cost Principles, particularly:
 - a. The list of specifically unallowable costs found in 200.421-475, such as alcoholic beverages, bad debts, contributions, fines and penalties, etc.
 - b. Those costs requiring advance approval from Federal agencies in order to be allowable in accordance with 2 CFR Part 200.407, Prior Written Approval, such as participant support costs, equipment purchases, etc.
3. No costs shall be charged directly to any Federal award until the cost has been determined to be allowable under the terms of the award and/or 2 CFR Part 200.400-475, Cost Principles,.
4. For each Federal award, an appropriate set of general ledger accounts (or account segments) shall be established in the chart of accounts to reflect the categories of allowable costs identified in the award or the award budget.
5. All items of miscellaneous income or credits, including the subsequent write-offs of un-cashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to a Federal award or to activity associated with a Federal award. The reduction in expenditures shall be reflected in the year in which the credit is received (i.e., if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit).

Section 20: Charging of Costs to Federal Awards

20.3 Criteria for Allowability

All costs must meet the following criteria from 2 CFR Part 200.402-406, Basic Considerations, in order to be treated as allowable direct or indirect costs under a Federal award:

1. The cost must be “reasonable” for the performance of the award, considering the following factors:
 - a. Whether the cost is of a type that is generally considered as being necessary for the operation of the agency or the performance of the award;
 - b. Restraints imposed by such factors as generally accepted sound business practices, arm’s length bargaining, Federal and state laws and regulations, and the terms and conditions of the award;
 - c. Whether the individuals concerned acted with prudence in the circumstances;
 - d. Consistency with established policies and procedures of the agency, deviations from which could unjustifiably increase the costs of the award.
2. The cost must be “allocable” to an award by meeting one of the following criteria:
 - a. The cost is incurred specifically for a Federal award;
 - b. The cost benefits both the Federal award and other work, and can be distributed in reasonable proportion to the benefits received; or
 - c. The cost is necessary to the overall operation of the agency, except where a direct relationship to any particular program or group of programs cannot be demonstrated.
3. The cost must conform to any limitations or exclusions of 2 CFR Part 200 Subpart E Cost Principles, or the Federal award itself.
4. Treatment of costs must be consistent with policies and procedures that apply to both federally financed activities and other activities of the agency.
5. Costs must be consistently treated over time.
6. The cost must be determined in accordance with generally accepted accounting principles.
7. Costs may not be included as a cost of any other federally financed program in the current or prior periods.
8. The cost must be adequately documented.

Section 20: Charging of Costs to Federal Awards

20.4 Direct Costs

Direct costs include those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy (2 CFR Part 200.413(a)). Audubon Area Community Services identifies and charges these costs exclusively to each award or program.

Each invoice shall be coded with the appropriate account number reflecting which program received direct benefit from the expenditure. Invoices are approved by the appropriate department director (or designee) and reviewed by the chief financial officer.

Time sheets are also submitted on a regular basis, reflecting employees' work and which programs directly benefited from their effort. Time sheets shall serve as the basis for charging salaries directly to Federal awards and non-Federal functions. See the Payroll section of this manual for detailed procedures.

Equipment purchased for exclusive use on a Federal award and reimbursed by a Federal agency shall be accounted for as a direct cost of that award (i.e., such equipment shall not be capitalized and depreciated for grant purposes, but will be capitalized and depreciated at year-end for financial statement purposes).

20.5 Indirect Cost Rate

Audubon Area Community Services maintains an annual indirect cost budget. Each year a new indirect cost budget is prepared and submitted to Audubon Area Community Services' Cognizant Agency, Department of Health and Human Services, for approval. The indirect cost rate approved is used when determining the overhead applied to each funding award.

Examples of the types of expenditures normally included in the indirect cost pool are:

1. General administration
2. Salaries and benefits of the executive officers, finance, accounting and administrative personnel
3. Depreciation of equipment and buildings
4. Office rent and maintenance
5. General office repairs and maintenance

These rates are submitted to Audubon Area Community Services' Cognizant Agency and will be binding on all other Federal agencies and their contracting officers unless specifically prohibited by statute.

Audubon Area Community Services' process for developing and submitting its indirect cost proposal is prepared by the chief financial officer from audited financial statements due December 31st.

Section 20: Charging of Costs to Federal Awards

20.6 Accounting for Specific Elements of Cost

Audubon Area Community Services shall utilize the following methods of charging specific elements of cost to Federal awards as direct or indirect costs:

Salaries and Wages – Salaries and wages shall be charged directly and indirectly based on the functions performed by each employee, as documented on each employee's timesheet (or personnel activity sheet), as follows:

Direct costs – The majority of the employees of Audubon Area Community Services charge their time directly since their work is specifically identifiable to specific grants or other (non-Federal) programs or functions of the agency.

Indirect costs – Staff employed in the departmental areas of management and general; finance; human resources; and information technology shall be considered "indirect staff" with 100% of their salary costs as indirect.

Compensated absences (vacation leave earned, sick leave used, and holiday pay) are considered part of salary costs. The accounting system records salaries associated with compensated absences as a direct or indirect cost in the same manner that salary costs are recorded.

Employee Benefits – Audubon Area Community Services incurs costs for the following statutory and non-statutory employee benefits:

- FICA
- Unemployment insurance
- Worker's compensation
- Health insurance
- Dental/Vision insurance
- Life insurance
- Contributions to pension plan
- Employee Assistance Program
- Other

Since Audubon Area Community Services accounting system tracks employee benefit costs by individual employee, each such benefit cost shall be charged directly and indirectly in the same proportion as each individual's salary.

Occupancy Expenses – Monthly rent expense and related pass-through expenses shall be allocated directly and indirectly, based on approximate square footage of space utilized, as follows:

Direct costs – The cost of space occupied by staff whose salaries are directly charged to Federal awards is charged directly to those same awards.

Indirect costs – The costs of space occupied by staff whose salaries are indirectly charged is also charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis (directly and indirectly) shall be allocated on a mixed basis in the same ratio as their salaries are allocated.

Section 20: Charging of Costs to Federal Awards

The cost of space associated with common areas, such as hallways, restrooms, and conference rooms, shall be accounted for per cost allocation determination.

Utilities – Utilities costs include electricity and water. Such utilities costs shall be charged directly and indirectly in the same proportion as occupancy costs.

Supplies and Materials – To the maximum extent possible, office supplies and materials are charged directly to the grant or program/function that uses the supplies or materials, based on the completion of a supplies usage form. All supplies and materials used by staff that is engaged in indirect activities shall be charged indirectly.

Postage and Shipping – To the maximum extent possible, postage and shipping costs shall be charged directly to the grant or program/function that benefits from the postage or shipping costs, based on the postage log kept near the postage machine and the UPS/FedEx shipping logs.

Photocopying and Printing – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost [or depreciation expense] of the copier. Photocopying costs shall be charged directly and indirectly based on the user codes input into the copier prior to making photocopies. All printing costs are charged directly to the benefiting grant or program/function.

Communications – Communications costs include the costs of local telephone service and long-distance telephone charges, including charges associated with telephone calls, facsimile transmissions, and Internet dial-up connections and are charged directly based on telephone line assignment.

Outside Services – Audubon Area Community Services incurs outside service costs for its annual audit, legal fees, and for staff development specialists. Outside service costs shall be charged as follows:

Audit fees – Cost of the financial statement audit and preparation of Form 990 shall be charged as an indirect cost.

Legal fees – Legal fees shall be charged directly to the program/function that benefits from the services. Legal fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

Staff Development Specialists – Costs associated with staff development specialists shall be charged directly to the program/function that benefits from the services. Fees that are not identifiable with specific direct grants or programs shall be charged indirectly.

Insurance – To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly. All insurance costs that are not identifiable with specific direct grants or programs (such as the agency's general liability coverage) shall be charged indirectly.

Credits – The applicable portion of any credits resulting from cash discounts, volume discounts, refunds, write-off of stale outstanding checks, trade-ins, scrap sales or similar credits shall be credited directly or indirectly in the same manner as the purchase that resulted in the credit.

Section 21: Accounts Payable Management

21.1 Overview

Audubon Area Community Services strives to maintain efficient business practices and good cost control. A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and check reconciliation. The following are general policies for accounts payable:

- Assets or expenses and the related liability are recorded by an individual who is not responsible for ordering and receiving.
- The amounts recorded are based on the contractor invoice for the related goods or services.
- The contractor invoice should be supported by an approved purchase order or other appropriate documentation, where necessary, and should be reviewed and approved by a department director or their designee prior to being processed for payment.
- Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

The primary objective for accounts payable and cash disbursements is to ensure that:

1. Disbursements are properly authorized
2. Invoices are processed in a timely manner
3. Contractor credit terms and operating cash are managed for maximum benefits

21.2 Recording of Accounts Payable

All valid accounts payable transactions, properly supported with the required documentation, shall be recorded as accounts payable in a timely manner.

Accounts payable are processed on a daily basis. Information is entered into the system from approved invoices or disbursement vouchers with appropriate documentation attached.

Only original invoices will be processed for payment unless duplicated copies have been verified as unpaid by researching the contractor records. No contractor statements shall be processed for payment.

21.3 Accounts Payable Cut-Off

For purposes of the preparation of the agency's monthly financial statements, all contractor invoices that are received, approved and supported with proper documentation by the fifth day of the following month shall be recorded as accounts payable as of the end of the immediately preceding month if the invoice pertains to goods or services delivered by month-end.

Section 21: Accounts Payable Management

21.4 Payables Schedule

The Finance Department will schedule payables at a minimum of twice a month, but may process payable batches more frequently as time and resources permit.

21.5 Preparation of a Voucher Package

Prior to any accounts payable being submitted for payment, a package called a “voucher package” shall be assembled. Each voucher package shall contain the following documents:

1. Contractor invoice (or employee expense report)
2. Packing slip (where appropriate)
3. Receiving report or other indication of receipt of merchandise and authorization of acceptance
4. Purchase order as required by procurement policies
5. Any other supporting documentation deemed appropriate

21.6 Processing of Voucher Packages

The following procedures shall be applied to each voucher package by the Payables Coordinator:

1. Check the mathematical accuracy of the contractor invoice.
2. Compare the nature, quantity and prices of all items ordered per the contractor invoice to the purchase order, packing slip and receiving report.
3. Document the general ledger distribution, using the agency’s current chart of accounts. Obtain the review and approval of the department director (or their designee) associated with the goods or services purchased.

Approvals by department directors (or their designee) indicate their acknowledgement of satisfactory receipt of the goods or services invoiced, agreement with all terms appearing on the contractor invoice, agreement with general ledger account coding, and agreement to pay contractor in full. Approvals shall be documented with initials or signatures of the approving individual.

21.7 Payment Discounts

To the extent practical, Audubon Area Community Services takes advantage of all prompt payment discounts offered by contractors. When such discounts are available, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

Section 21: Accounts Payable Management

21.8 Employee Expense Reports

Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed expense reimbursement form (see further policies under "Travel and Business Activities" (Section 22)). All required receipts must be attached, and a brief description of the business purpose of the expenditure must be noted on the form. Expenses submitted after the fiscal year closeout of a grant or fund account will not be reimbursed.

21.9 Reconciliation of A/P Subsidiary Ledger to General Ledger

At the end of each monthly accounting period, the total amount due to contractors per the accounts payable subsidiary ledger shall be reconciled to the total per the accounts payable general ledger account (control account). All differences are investigated and adjustments are made as necessary. The reconciliation and the results of the investigation of differences are reviewed and approved by the chief financial officer.

21.10 Management of Accounts Payable Contractor Master File

All contractor files shall include all of the following data:

1. Contractor's legal name and any DBA name(s)
2. Street address (payments may be mailed to a P.O. Box, but a street address must be in the file)
3. Federal employer identification number
4. Telephone number
5. Fax number
6. Contact name/ email address

Payments shall not be made to any contractor whose file does not comply with the preceding requirements. [See Section 17.18]

21.11 Verification of New Contractors

The Payables Coordinator will periodically perform additional procedures to validate the legitimacy of new contractors. The Payables Coordinator shall perform a limited public records search and shall contact the contractor to validate the contractor's existence.

Section 22: Travel and Business Activities

22.1 Employee Local Travel

Employee local travel shall be defined as travel for business purposes, usually by personal or agency vehicle, which is 24 hours or less and requires no overnight lodging.

1. Authorization — all employee local travel including the use of a personal or agency vehicle must be authorized by the department director or supervisor. Authorization does not have to be in writing but must be with the consent and knowledge of the department director or supervisor. The department director is responsible for monitoring the budget to assure that such local travel is authorized and allowable.
2. Limitations — all local travel must be by the most direct route. Mileage to and from residence will not be paid by the agency. Agency owned vehicles should be used if available and car-pooling should be used in all circumstances. The cost of meals will not be reimbursed when an employee is in local travel status.
3. Mileage Rate -- mileage for authorized business use of personal vehicle will be reimbursed at the Kentucky state rate as issued each quarter. In no case shall the rate paid for mileage be greater than the federal rate.
4. Local Travel by Personal Vehicle – An Employee is only authorized to use his/her personal vehicle if they have both a valid driver's license and current comprehensive auto insurance, including liability. An employee authorized to use their personal vehicle for business travel are required to complete a local travel voucher in which a record of miles traveled on a daily basis is maintained. At the end of the month the local travel voucher will be totaled, signed by the employee and submitted to the supervisor for approval. The department director or designee will, as part of the approval process, create an electronic purchase order that shall designate the account (expense code) that should be charged. The purchase order number must be written on the local travel voucher.
5. Repayment for Personal Use - If authorized by the department director or supervisor, an employee may be allowed to use an agency vehicle for personal travel. In such event, the employee shall document personal travel using the local travel voucher and shall reimburse the agency at the agency mileage rate for personal miles traveled.
6. Reimbursement — Local travel vouchers must be submitted to the Finance Department for reimbursement. The payables staff will check the travel voucher for accuracy and completeness. Travel vouchers not coded, inaccurate or incomplete will be returned to either the department director or person submitting voucher. Travel vouchers, which have been checked for accuracy, have been approved, and have been properly coded, are entered into the computer by the Payables Coordinator or other designated finance person for payment. Checks are written in accordance with payables schedule and will be directly deposited into the employee's bank account.
7. Local Travel by Agency Vehicle – An employee using an agency vehicle for business travel shall be required to record on the agency vehicle log the following: the driver's name (employee); the date of travel; departure; destination; odometer reading before/after travel; and reason for travel. Each department shall implement procedures for insuring the accuracy of agency vehicle logs and shall be responsible for maintaining these logs on file subject to the agency's record retention policy. (This requirement does not apply to vehicles operated by GRITS public transit.)
8. The requirements specified above for employee local travel shall apply to local travel by board or policy council members.

Section 22: Travel and Business Activities

22.2 Employee Business Travel

Employee business travel shall be defined as authorized employee travel for business purposes in which travel is more than 24 hours and requires overnight lodging. Employees will be reimbursed for expenses of such business travel in accordance with the policies outlined below. All the policies and requirements for employee business travel shall apply to such travel by board or policy council members.

22.3 Approval for Employee Business Travel

All employee business travel must be approved by email by the department director and the chief executive officer, or in his absence, the chief financial officer. This is to insure that prior approval, which may be required, is obtained from the appropriate Federal or State agency. The department director is responsible for obtaining prior approval from the Federal or State agency if required.

All employee requests for business travel shall be submitted by email and must include the following information in the format indicated below:

- Traveler(s) Name(s)
- Travel Dates
- Meeting/Conference Name
- Meeting/Conference Location
- Estimated Individual Travel Cost
 - Registration Fees
 - Airfare or Mileage
 - Ground Transportation
 - Total Lodging Cost:
 - Total M&IE Per Diem
 - Other Costs
 - Total Individual Cost
- Total Cost for Multiple Travelers
- Justification/Benefit for Attendance

Estimated Travel Costs. Provide estimates of all costs as indicated for one traveler and total cost if multiple travelers (Individual cost x # of travelers). *Estimated mileage costs in lieu of airfare should be computed at standard mileage rate for either personal or agency vehicle. Ground Transportation would include estimates of total cost of travel to and from airport and to and from hotel which might include mileage, taxi, rental car, etc. Other costs might include airport parking and baggage fees.* For multiple travelers that share costs such as a hotel room, vehicle mileage, taxi, or rental car, a pro-rated formula based on number of travelers may used to calculate individual costs.

Justification/Benefit for Attendance. Provide a clear justification of the proposed travel by indicating the business purpose or benefits of attendance including what specific knowledge or skills the employee hopes to obtain from the event AND how such knowledge or skills will be used to benefit the program upon return from the travel.

The chief executive officer's printed email approval of authorized business travel that includes the information outlined above must be attached to any request for travel advance and to the business travel expense statement when submitted for closeout documentation.

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22.4 Request for Travel Advancement

Funds will be advanced for upcoming business travel only upon receipt of a completed and properly approved Request for Travel Advancement (available in electronic form) unless prohibited or otherwise prescribed by grantor's contract. Travel advances are generally limited to eighty percent of estimated actual cost excluding expenses charged on agency purchase cards. Travel advances are to be used only for the purpose intended. All travel advances should be kept to the necessary minimum and must not exceed the reasonably expected expenses. The following procedures apply to the submission of a Request for Travel Advancement:

1. The Request for Travel Advancement must be signed by employee signifying their acknowledgement of and agreement to, these policies and approved by the supervisor.
2. The department director or designee will, as part of the approval process, create a purchase order that will designate the accounts that should be charged and record purchase order number on the travel advancement form.
3. A copy of the email from the chief executive officer approving the proposed business travel must be attached to the form.
4. The Request for Travel Advancement must be submitted to the Finance Department for payment. The payables coordinator/clerk will check the travel advance form for accuracy and completeness. Request for Travel Advancement vouchers without a purchase order number, without documentation of prior approval, inaccurate or incomplete will be returned to the department director or person submitting voucher.
5. The payables coordinator/clerk will process the Request for Travel Advancement voucher and issue a check in a timely manner. The original copy of the travel advancement form will be filed attached to the appropriate copy of the computer payables check. A copy of the Request for Travel Advancement will be filed in the agency's travel advance file. Payable coordinator/clerk and department director or designee will periodically review travel advancement records to insure that the Business Travel Expense Statements have been completed.
6. Employees receiving travel advances must submit an expense statement within 7 working days of returning from travel (see 22.5).

In the event that travel advances are not processed prior to departure, then the traveler may use an agency purchase card for meals with prior approval from the department director. In addition, all travelers using agency purchase cards must follow the guidance on cost allowability (see section 24.1, Issuance of Corporate Purchase Cards). Copies of all receipts for the purchase card expenditures must be attached and included on the expense statement (see 22.5 #8 for additional instructions relating to such purchase card expenditures). If the meal expense should exceed the allowable M&IE per diem the excess amount shall be due to the agency immediately.

22.5 Business Travel Expense Statement

At the conclusion of an Audubon Area Community Services business trip, an employee that has incurred business-related expenses should complete a Business Travel Expense Statement (available in electronic form) in accordance with the following policies:

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1. Documentation must justify that participation of the traveler is necessary for the federal award and costs are reasonable and consistent with the agency's travel policy (2 CFR Part 200.474(b)(1 & 2)).
2. Identify each separately incurred business expense (i.e., do not group all expenses associated with one trip together).
3. With the exception of tips, tolls, reimbursed mileage, and M&IE per diems, all business expenses must be supported with invoices/receipts. Credit card charge receipts do not represent adequate supporting documentation unless clearly itemized.
4. A hotel receipt must be obtained to substantiate all lodging expenditures.
5. Employees will be reimbursed at a per diem rate for "subsistence expenses" while on official agency business. It is given in lieu of actual expenses for meals, tips to waiters, porters, etc.
6. For meals and incidental expense, employees will be reimbursed at the standard federal "Meals and Incidental Expense" (M&IE) rate unless prohibited or otherwise prescribed by grantor's contract.
7. For airfare, airline-issued receipts should be obtained. If a traveler fails to obtain a receipt, other evidence must be submitted indicating that a trip was taken and the amount paid (for example, a combination of an itinerary, a credit card receipt, and boarding passes).
8. Mileage may be reimbursed at the rate applicable for local travel as specified in 22.1.
9. The following items must be attached to the completed expense statement:
 - a. A copy of the email approval of the chief executive officer must be attached to the expense statement to document prior approval (see 22.3). This approval shall also serve as explanation of the business purpose of each trip.
 - b. Copies of all contractor receipts itemized on the expense statement
 - c. Documentation substantiating travel event. A copy of a hotel receipt is the most common form of documentation of travel. In the event that a hotel receipt is not available, the traveler must provide some alternative form of substantiation of the travel event.
 - d. Purchase orders must be completed for each purchase card charge with the original receipts submitted separately for processing. Such receipts must clearly indicate the travel event associated with each receipt/expense.
10. An electronic purchase order must be completed for account coding and the purchase order number must be written on the expense statement form.
11. All expense statements must be signed and dated by the employee.
12. All expense statements must be approved by the employee's direct supervisor.
13. Only one expense statement form should be prepared for each trip.

An employee will not be reimbursed for expense statements not meeting the preceding criteria. If the expense report results in a balance due to Audubon Area Community Services (as a result of receiving a travel advance greater than actual business expenditures), the employee must attach a check or sign a statement indicating authorization to settle the balance due through a payroll deduction. No further travel advances will be issued to any employee who has an outstanding balance due to Audubon Area Community Services from previous business trip.

22.6 Reimbursable Expenses for Business Travel

Expenses essential to the transaction of official business shall be reimbursable. These shall include per diem, in lieu of actual documented subsistence costs; carrier transportation including airplanes, trains,

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busses, taxis, limousines or other usual means of conveyances; use of rental vehicles if authorized in advance; parking; tolls; and checked baggage fees.

1. Per Diem for "Meals and Incidental Expense" (M&IE) — Employees will be reimbursed at a per diem rate for "subsistence expenses" while on official agency business. It is given in lieu of actual expenses for meals, tips to waiters, porters, etc. Unless prohibited or otherwise prescribed by grantor's contract, the current federal M&IE per diem shall be used for computation of per diem for employee travel. These rates shall be the current standard federal domestic per diem rates published by the General Services Administration found at www.gsa.gov/perdiem. Rates shall be based on the primary destination city or county. If the destination city or county is not listed, the standard CONUS rate shall apply. Per Diem equal to three-fourths (75%) of the applicable M&IE rate for the travel destination shall be the established rate for the day the travel begins and the day that the travel ends. Per Diem for all other full calendar days that the employee is in travel status shall be the full applicable M&IE rate for the travel destination. Electronic forms for the "Request for Travel Advancement" and "Business Travel Expense Statement" shall be used to facilitate completion and computation of travel advances or expense statements.
2. Actual Lodging Costs — Employees will be reimbursed for actual lodging costs or such costs may be paid directly by agency purchase card or direct billing. Generally, such costs should not exceed customary levels provided in the federal per diem schedule. Exceptions may be made at the chief executive officer's discretion for high-rate requirements that exceed the customary levels.
3. Transportation — Employees should as a rule, use common carriers, such as airplanes, busses and trains except when the official business of the agency is better served in consideration for time, cost, and efficiency, or when other transportation is unavailable. In all cases less than first-class accommodations must be requested.
4. Taxis/ Shuttle Services — Taxi/shuttle fares from a carrier terminal to place of abode or business, or abode to business or return are allowable.
5. Rental Cars — A vehicle may be rented when renting would be more advantageous to the agency than other means of commercial transportation such as using a taxi. Use of rental vehicles must be authorized in advance by the department director or chief executive officer. Employees must request either compact or intermediate size vehicles. A full-size vehicle or van is allowable if there are three or more employees traveling in the vehicle. Luxury, premium, and specialty car rentals will be reimbursed only at the intermediate car rate. Employees should purchase the additional Loss Damage Waiver insurance options from the rental company. Employees are covered for liability insurance through the agency's insurance policy. Employees must refill gasoline prior to returning rental car for drop off. Receipts for rental cars should indicate the names of travelers sharing the rented vehicle.
6. Parking — Necessary parking fees in the course of official business will be reimbursed. Fees for lot or metered parking must be substantiated by a receipt.
7. Tolls paid in the course of official travel will be reimbursed. Internet access charges shall be reimbursed when access is used for agency business.
8. Checked baggage fees will be reimbursed for one piece. Additional baggage fee charges such as bags over the required weight limit or additional bags will be the personal responsibility of the traveler.

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9. Reasonable fees for booking flights or other travel arrangements through a travel agent or on-line travel site are allowable.
10. Leave of Absence — When a leave of absence of any kind is taken while in travel status, such as non-official side trips, per diem and other travel costs will not be reimbursed. MI&E per diem must be adjusted in day increments on the expense statement. Hotel and other travel expenses shall be the personal responsibility of the traveler when in non-official travel and should not be included on the travel expense statement. Any personal portion of cost of a rental car must be subtracted from the total rental bill before requesting reimbursement. Personal portion is calculated by prorating the cost of the rental over the number of days for personal use and number of days for business use.

22.7 Reasonableness of Business Travel Costs

Audubon Area Community Services shall reimburse travelers only for those business-related costs that are reasonably incurred. Accordingly, the following guidelines shall apply:

1. Suites and other upgraded rooms at hotels shall not be allowed. Travelers should stay in standard rooms.
2. Ask hotels for any available discounts – nonprofit, government or corporate rates.
3. Business-related long-distance telephone calls while away on business travel are permitted, but should be kept to a minimum. Expense reports should explain long-distance charges. However, whenever possible, travelers should utilize business long-distance calling cards or business cell phones when placing calls while away on travel. Avoid using the hotel's long-distance service if possible.
4. Federal M&IE per diem includes incidental expenses such as tips for baggage handling and therefore are not reimbursed. If contract per diem rates are used, reasonable tips for baggage handling shall be reimbursed. No receipts are required.
5. If required by the funding source, foreign travel charged to federal grants must be approved in writing by the funding source prior to travel.
6. Department directors may require hotel double occupancy for travelers if necessitated by program budget constraints.
7. Travelers may, on occasion, combine personal and business travel on the same trip provided there is no additional cost to the agency.

22.8 Special Rules Pertaining to Air Travel

The following additional rules apply to air travel:

1. Air travel should be at coach class or the lowest commercial discount fare at the time the ticket is purchased except when this fare would:
 - a. Require circuitous routing
 - b. Require travel during unreasonable hours
 - c. Excessively prolong travel
 - d. Result in additional costs that would offset the transportation savings, or
 - e. Offer accommodations not reasonably adequate for the traveler's medical needs.
2. First class air travel shall not be reimbursed unless there is a documented medical reason.
3. Memberships in airline flight clubs are not reimbursable.

Section 22: Travel and Business Activities

4. Cost of flight insurance is not reimbursable.
5. When returning on a Sunday or departing on a Saturday in order to obtain a cost savings in airfare due to the Saturday-night stay-over, travelers should provide a total cost comparison (showing that the lower airfare plus extra night's lodging, meals & incidentals is less costly than airfare without the Saturday night stay-over).
6. Cost of upgrade certificates is not reimbursable.
7. Cost of canceling and rebooking flights is not reimbursable, unless it can be shown that it was necessary or required for legitimate business reasons (such as changed meeting dates, carrier canceled events, canceled flights, emergencies, etc.).
8. Travelers must identify and pay for all personal flights, even if such flights are incorporated into a flight schedule that serves business purposes (i.e., Audubon Area Community Services will not reimburse for the personal legs of a trip).
9. Surface Transportation Used in Lieu of Air Travel – If advance approval has been obtained from department director, a traveler may use surface transportation for personal reasons even though air travel is the appropriate mode of transportation. The cost of M&IE per diem, lodging, parking, mileage, tolls, taxis and ferries incurred while in transit by surface transportation may be reimbursed. Such combined costs shall not exceed the cost of airfare, hotel, and M&IE per diem. Airfare costs shall be based on the lower of the regular coach fare available for the location of travel from a standard commercial air carrier plus transportation costs to and from the terminals. Hotel and M&IE per diem shall be based on the length of travel if travel had been by air. Mileage costs may be prorated based on number of employees traveling in the same vehicle. Mileage costs for agency vehicles may include only costs of gas; mileage costs by personal vehicle must be computed at agency mileage rates.

22.9 Spouse/Partner/Family Member Travel

1. Audubon Area Community Services does not reimburse any employee for separate travel costs (air fare, per diem, etc.) associated with his/her spouse, partner, or family member. The cost of a shared hotel room need not be allocated between employee and spouse/partner/family member for purposes of this policy. All other travel expenses related to a traveler's spouse or family member are considered personal and are not reimbursable.

22.10 Business Meals and Activities

Business Meals/Activities: Certain meals or activities which are an integral and necessary part of a training, conference, or meeting (i.e., a working meal where business is transacted) are allowable costs. Such meals should be utilized only on a limited basis and must be clearly related to agency business. The following documentation must be written on or attached to expense receipts for any of the above activities when sent to the Finance Department for processing:

- a. Describe the business purpose of the meal or other business events (i.e. a copy of agenda of the training, meeting, or conference; notation of name of a regularly scheduled board, committee, or council meeting; topics discussed; etc.)
- b. Names, titles, agencies represented, and business relationships of all persons participating in the meal (i.e. sign-in or log of persons participating; a list of persons in attendance; etc.)

Section 22: Travel and Business Activities

Unallowable Entertainment Costs: Costs of amusement, diversion, social activities, ceremonials, and related incidental costs such as alcohol, bar charges & tips, personal telephone calls, and laundry charges are unallowable.

22.11 Temporary Dependent Care Costs (2 CFR Part 200.474(c))

Temporary dependent care costs above and beyond regular dependent care that directly result from travel to conferences are allowable and reimbursable providing that:

1. The costs are a direct result of the individual's travel for the Federal award;
2. The costs are consistent with the non-Federal entity's documented travel policy for all entity travel; and
3. Are only temporary during the travel period.

Section 23: Cash Disbursements (Check-Writing) Policies

23.1 Check Preparation

Audubon Area Community Services prints contractor checks and expense reimbursement checks on a bi-weekly basis on the Friday opposite payroll. Checks shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers.

All contractor and expense reimbursement checks shall be produced in accordance with the following guidelines:

1. Expenditures must be supported in conformity with purchasing, accounts payable, and travel and business activities policies described in this manual.
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts.
3. Generally, all contractors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services.
4. Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks by the chief financial officer.
5. All supporting documentation is provided with corresponding check is forwarded to an authorized check signer.
6. Checks shall be utilized in numerical order and unused checks are stored in a locked safe in the Finance Department.
7. Checks shall never be made payable to "bearer" or "cash."
8. Checks shall never be signed prior to being prepared.
9. Upon the preparation of a check, contractor invoices and other supporting documentation shall immediately be canceled in order to prevent subsequent reuse.

23.2 Check Signing

Check signers should review checks before signing. If there is any question about a disbursement, additional information or supporting documentation should be requested from the Finance Department. Checks should not be signed if after review it is determined that supportive documentation is missing or there remains a question about the disbursement.

Equipment used to sign checks (plates, stamps, CD, etc.) will be kept in a locked drawer (safe). Access to the equipment shall be restricted to the chief executive officer, chief financial officer, and other authorized check signers. An authorized check signer will review check run and supporting documentation, and initial approval.

23.3 Mailing of Checks

After signature, checks are returned to the Payables Coordinator then mails checks immediately.

23.4 Voided Checks and Stop Payments

Checks may be voided due to processing errors by making proper notations in the check register and defacing the check by clearly marking it as "VOID." All voided checks shall be retained to aid in preparation of bank reconciliations.

Section 23: Cash Disbursements (Check-Writing) Policies

Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by telephone instruction and written authorization to the bank by accounting personnel with this authority. A journal entry is made to record the stop payment and any related bank fees by the fiscal support manager.

23.5 Recordkeeping Associated with Independent Contractors

Audubon Area Community Services shall obtain a completed Form W-9 or equivalent substitute documentation from all contractors to whom payments are made (see "Accounts Payable Management" policies). A record shall be maintained of all contractors to whom a Form 1099 is required to be issued at year end. Payments to such contractors shall be accumulated over the course of a calendar year.

Section 24: Purchasing/Credit Cards

24.1 Issuance of Agency Purchasing/Credit Cards

Audubon Area Community Services employees, for business efficiency of the agency, may be issued or may request an agency purchasing/credit card by contacting their Officer/Director. Cardholders will be required to sign a statement acknowledging the following, but not limited to; the cardholder will use the card exclusively for legitimate agency-related business purposes; the cardholder agrees to follow all required procurement policies and procedures, including department-specific requirements; the cardholder will not use the card for personal purchases; the cardholder understands and agrees to disciplinary procedures for misuse of the card; and that the cardholder agrees to take reasonable precautions to protect the card from loss or theft by storing it in a secure location. This statement shall be signed by the prospective cardholder's Officer/Director signifying approval of card issuance and respective credit limit. The statement will then be submitted to the Finance Department to facilitate request to the card company. Upon approval from the bank or credit card company, a card will be issued bearing the names of both the individual and Audubon Area Community Services. In order to change any of the terms of a card, written authorization will have to be submitted to Finance Department indicating approval for the change by the cardholder's Officer/Director. In the event of termination of employment of a cardholder, the responsible Officer/Director must immediately notify the Finance Department requesting cancellation of the account and forward the card to the Finance Department for proper disposal.

For fleet fuel cards, please use separate statement to facilitate card issuance requests.

24.2 Cardholder Responsibilities

Every month, a statement detailing the expenditures charged to the cardholder's card will be made available for the cardholder and supervisor or designee. The cardholder and supervisor/designee will review this statement within five days to verify all charges and to identify any inadvertent personal or unauthorized uses of the card. Cardholders must reimburse the agency for any such inadvertent personal charges.

Any fraudulent or other unauthorized charges shall be immediately reported to the card company by the cardholder for further investigation and notification must be sent to the Finance Department of the disputed charges.

Personal use of agency purchasing/credit card is strictly prohibited. Any personal use will subject the employee to the agency's disciplinary actions discussed in this manual and in the Personnel Policies and Procedures Manual.

Cardholders must report the loss or theft of an agency purchasing/credit card immediately card company and the Finance Department.

The following procedures must be performed prior to forwarding statement accompanied with supporting documentation for all charges, credits, and adjustments to the Finance Department for payment processing. Documentation of meals, travel and valid business activity expenditures shall include all of the same elements as described in "Travel and Business Activities" (See Section 22).

Section 24: Purchasing/Credit Cards

Guidelines for turning in purchasing/credit card receipts are as follows:

1. Use appropriate agency form (if not accessible use 8.5 x 11 copy paper) to attach small receipts. Form or copy paper record shall include brief explanation of purchase; purchase order number; and cardholder's signature.
2. Original supporting documentation for all charges, credits, and adjustments must be attached to monthly card statement and then forwarded to their supervisor/designee for review and approval.

Audubon Area Community Services requires the following review and approval procedures:

- Each supervisor/designee must review and sign the monthly statement indicating approval of the purchases, including their allowability, and approval to pay the card company.
- The Board Chair will approve the Chief Executive Officer's purchasing/credit card statement.

24.3 Revocation of Agency Purchasing/Credit Cards

Cardholders who fail to comply with any of these policies associated with the use of an agency purchasing/credit card shall be subject to possible revocation of purchasing/credit card privileges. The Chief Financial Officer, with the approval of the Chief Executive Officer, shall determine whether purchasing/credit cards are to be revoked.

24.4 Employee Credit Cards

For employees incurring legitimate agency business expenses utilizing their personal credit cards for such expenditures, the agency shall reimburse the employees for properly supported and documented business expenditures charged to personal credit cards after the completion of an expense report. (See Section 21.8)

24.5 Sales Tax

Employees shall be proactive in reminding contractors at the time of purchase that the agency is exempt from Kentucky sales tax and should keep a copy of the agency's purchase exemption certificate to present to the contractor at the time of purchase. In the event that sales tax is charged on a purchase that should be exempt, employee should request for refund of sales tax withheld from the contractor.

Section 25: Payroll and Related Policies

25.1 Classification of Workers as Independent Contractors or Employees

Audubon Area Community Services considers all relevant facts and circumstances regarding the relationship between the agency and the individual in making determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between Audubon Area Community Services and the individual. Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control:
 - a. Instructions given by Audubon Area Community Services to the worker that indicate control over the worker (suggesting an employee relationship), such as:
 - i) When and where to work
 - ii) What tools or equipment to use
 - iii) What workers to hire or to assist with the work
 - iv) Where to purchase supplies and services
 - v) What work must be performed by a specified individual
 - vi) What order or sequence to follow
 - b. Training provided by Audubon Area Community Services to the worker (i.e., employees typically are trained by their employer, whereas contractors typically provide their own training).
2. Financial control:
 - a. The extent to which the worker has un-reimbursed business expenses (i.e., employees are more likely to be fully reimbursed for their expenses than is a contractor).
 - b. The extent of the worker's investment in the facilities/assets used in performing services for Audubon Area Community Services (greater investment associated with contractors).
 - c. The extent to which the worker makes services available to the relevant market.
 - d. How Audubon Area Community Services pays the worker (i.e., guaranteed regular wage for employees vs. flat fee paid to some contractors).
 - e. The extent to which the worker can realize a profit or loss.
3. Type of Relationship:
 - a. Written contracts describing the relationship that Audubon Area Community Services and the individual intend to create.
 - b. Whether Audubon Area Community Services provides the worker with employee-type benefits, such as insurance, paid leave, etc.
 - c. The permanency of the relationship.
 - d. The extent to which services performed by the worker are a key aspect of the regular business of Audubon Area Community Services.

If an individual qualifies for independent contractor status, the individual will be sent a Form 1099 if total compensation paid to that individual for any calendar year, on the cash basis, is \$600 or more. The amount reported on a Form 1099 is equal to the compensation paid to that person during a calendar year (on the cash basis). Excluded from "compensation" are reimbursements of business expenses that have been accounted for by the contractor by supplying receipts and business explanations.

Section 25: Payroll and Related Policies

If an individual qualifies as an employee, a personnel file will be created for that individual and all documentation required by the Audubon Area Community Services personnel policies shall be obtained. The policies described in the remainder of this section shall apply to all workers classified as employees.

25.2 Wage Comparability Study

Audubon Area Community Services will perform or obtain wage comparability studies every three years to ensure the salary and wage structure is similar to other organizations or programs of like size and employee base in the agency's service area.

25.3 Payroll Administration

Audubon Area Community Services operates on a bi-weekly payroll. A payroll schedule is prepared annually and may be received by request to the payroll department. A personnel file is established and maintained for all employees with current documentation, as described throughout this section and more fully described in Audubon Area Community Services' Personnel Manual. [See PPPM, Section 11]

Each employee payroll file shall also indicate whether the employee is exempt or non-exempt from the provisions of the Fair Labor Standards Act.

25.4 Changes in Payroll Data

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the appropriate department director and chief executive officer.

Voluntary payroll deductions, changes in income tax withholding status, and court-ordered payroll deductions shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data shall be maintained in each employee's personnel file.

25.5 Payroll Taxes

The Finance Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid. The Finance Department may utilize the services of an outside payroll service center for the processing of payroll, as determined by the chief financial officer.

25.6 Documentation of Personnel Expenses

The agency follows the requirements in 2 CFR Part 200.430(i), Standards for Documentation of Personnel Expenses, as well as requirements in specific grants.

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

1. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

Section 25: Payroll and Related Policies

2. Be incorporated into the official records of the Organization;
3. Reasonably reflect the total activity for which the employee is compensated;
4. Encompass both federally assisted and all other activities compensated by the Organization on an integrated basis;
5. Comply with the established accounting policies and practices of Organization; and
6. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect cost activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

25.7 Preparation of Timesheets

All Audubon Area Community Services employee timesheets must be approved and submitted to the Finance Department no later than 4:30PM on the Wednesday following the close of each pay period. Each department may implement earlier dates for collection and processing of timesheets to comply with the agency's submission requirements. Timesheets shall be prepared in accordance with PPPM, Section 3.2.

Corrections identified by an employee's supervisor or department director shall be authorized by the employee prior to submission. For corrections identified after submission to the Finance Department, the payroll coordinator shall insure that a corrected timesheet is approved by the employee and supervisor or department director prior to processing payment.

Employees not adhering to the time sheet preparation and due dates above may have their pay withheld until such information is received by the payroll department.

25.8 Processing of Timesheets

The payroll coordinator will process the timesheets and then enter all timesheets into the payroll system.

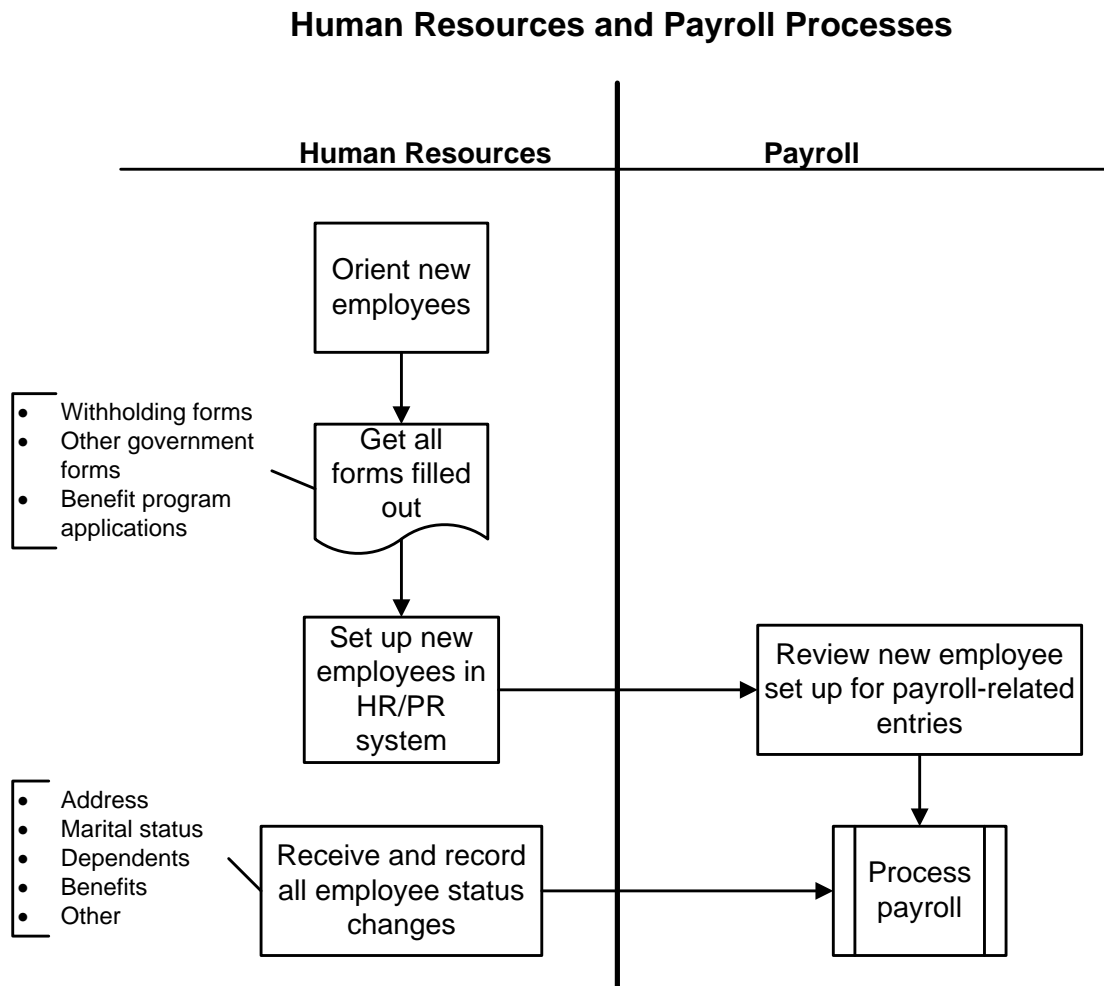
Tampering with, altering, or falsifying time records, recording time on another employee's time record or willfully violating any other timesheet policy or procedure may result in disciplinary action, up to and including discharge.

25.9 Review of Payroll

Upon production of all payroll reports and checks, the chief financial officer reviews payroll prior to its distribution to employees. The chief financial officer shall sign the payroll register, indicating approval of the payroll.

Section 25: Payroll and Related Policies

25.10 Human Resources and Payroll Processes Flowchart



Section 26: Cash and Cash Management

26.1 Cash Accounts

General Cash Account (consolidated account):

The primary operating account provides for routine business check disbursements. All cash and credit card deposits are made to this account.

Cash transfers are done on an as needed basis to cover disbursements to the payables account.

In addition, all advances of Federal funds shall be deposited in an interest-bearing account and interest earned in excess of \$500 shall be returned to the Federal Payment Management System (PMS). Interest earned on such funds will be allocated to Federal awards based on the percentage of funds received during the month for each award.

Payables Account:

The payables account is separate from the consolidated account. The payables account is a zero-balance account. As such, only the amount needed to cover each payable is transferred into this account from the consolidated account, based on the amount calculated by Accounts Payable.

Transfers from the operating account into the payables account are initiated by the Payables Coordinator. The agency's agreement with its financial institution limits wire transfers from its operating account to those transfers into payables only.

Payroll Account:

The payroll account is separate from the consolidated account. The payroll account is a zero-balance account. As such, only the amount needed to cover each payroll is transferred into this account from the operating account, based on the amount calculated by the Payroll Department.

Transfers from the operating account into the payroll account are initiated by the Payroll Coordinator. The agency's agreement with its financial institution limits wire transfers from its operating account to those transfers into payroll only.

26.2 Authorized Signers

The following Audubon Area Community Services personnel are authorized to sign checks drawn on the general operating and payroll accounts:

- Chairperson of the Board of Directors
- chief executive officer
- chief financial officer
- Additional signers may be added as designated by the chief executive officer

The chief financial officer will promptly notify the agency's financial institutions of changes in authorized signatures upon the departure of any authorized signer.

Section 26: Cash and Cash Management

26.3 Bank Reconciliations

Bank account statements are received each month and forwarded unopened to the chief executive officer. The chief executive officer shall open the statement and review its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. (This review must be performed in a timely manner so that reconciliation of the bank account is not delayed). Unusual or unexplained items shall be reported immediately to the chief executive officer and/or the Board chair.

After this review is complete, the entire bank statement is forwarded to the Finance Department, where reconciliation between the bank balance and general ledger balance is prepared by someone who is not an authorized check signer. The bank reconciliation process will be completed by end of month after receipt of each bank statement.

The reconciliation process shall involve an inspection of the fronts and backs of cancelled checks returned with the bank statement. The purpose of this inspection is to identify signs of forgery, altered or substitute checks, unusual endorsements, or other signs of fraudulent activity. If the agency's financial institution does not return original cancelled checks or paper copies thereof, the person preparing the monthly bank reconciliation shall view electronic copies of cancelled checks provided by the financial institution via CD-ROM or Internet access to the Institution's web site.

All bank reconciliations, including any adjusting journal entries resulting from preparing bank reconciliations, are reviewed by the chief financial officer on a monthly basis.

Bank reconciliations, cancelled checks, and copies of resulting journal entries are filed in the current year's accounting files.

26.4 Cash Flow Management

The chief financial officer monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

Audubon Area Community Services adheres to the requirements of its grants which may prohibit loaning funds between programs (for example, Head Start), therefore, cash management and reporting is performed at the program level as well as for the agency as a whole.

26.5 Stale Checks

Audubon Area Community Services will write off checks that are more than 90 days old that have not cleared the agency's bank. Voided checks will either be reissued to recipient or refunded back to the program as directed by the respective department personnel.

Audubon Area Community Services will also comply with the Commonwealth of Kentucky laws regarding unclaimed property. Accordingly, if un-cashed checks are subject to a state reporting and transfer

Section 26: Cash and Cash Management

requirement, the agency shall file all appropriate forms and remit unclaimed property to the appropriate jurisdiction.

26.6 Petty Cash

Audubon Area Community Services will provide imprest funds for valid, minor office expenditures (not for travel for employee advances), and to periodically replenish these funds up to its authorized balance as established by the department director and the chief financial officer. The department director is responsible for ensuring that the petty cash fund is locked at all times.

All disbursements from the petty cash fund must be accompanied by a completed and approved petty cash voucher. Receipts are required for all disbursements from petty cash.

The Petty Cash Custodian shall prepare a reconciliation of the petty cash account on a periodic basis. Petty cash reconciliations are subject to review by the fiscal manager, who may also perform periodic surprise cash counts and reconciliations.

26.7 Wire Transfers

The chief financial officer and the fiscal manager shall be the only Audubon Area Community Services employees authorized to transact wire transfers from the agency's bank accounts. To prevent anyone other than the chief financial officer and the fiscal manager from transacting wire transfers, a system shall be employed that requires the use of pass codes. Confirmations of all wire transfers are delivered to the fiscal manager.

Section 27: Inventory of Materials

27.1 Description of Inventory

Audubon Area Community Services maintains an inventory of materials used for home weatherization and rehabilitation.

27.2 Accounting for Inventory

Audubon Area Community Services accounts for purchased inventory items at cost, using the [first-in, first-out] method of valuation. Unit cost shall be computed by adding freight, insurance and other shipping costs to the actual cost of purchased inventory, dividing this total amount by the number of units purchased.

27.3 Physical Counts

A physical count of inventory for home weatherization and rehabilitation will be performed on a monthly basis. Any inventory items that appear damaged, obsolete or otherwise unable to be sold shall be excluded from the counts. A detailed record of the physical count shall be kept by the individuals involved in taking the inventory.

At the conclusion of the physical count, the inventory count sheets shall be extended by applying the most recent unit costs to the physical quantities of each item on hand. The general ledger balance shall be adjusted to reflect the total inventory on hand as determined by the physical count.

27.4 Contributed Inventory

Inventory items donated to Audubon Area Community Services shall be recorded as assets of the agency at the fair market value as of the date of the contribution, unless the agency is acting as an agent in connection with a contribution by a donor through the agency to another charity specifically identified by the donor. Contributed inventory items shall be subject to the same physical counting and other policies as purchased inventory items.

Section 28: Prepaid Expenses

28.1 Accounting Treatment

Audubon Area Community Services treats payments of expenses that have a time-sensitive future benefit as prepaid expenses and will amortize these items over the corresponding time period.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date shall be classified as non-current assets.

28.2 Procedures

As part of the account coding process performed during the processing of accounts payable, all incoming contractor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

The Finance Department shall maintain a schedule of all prepaid expenses. The schedule shall indicate the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.

Section 29: Investment Policies

29.1 Investment Policies

Audubon Area Community Services treats all assets of the agency, including those funds that are legally without donor restrictions, as though they are held in a fiduciary capacity for the purpose of accomplishing the agency's tax-exempt mission. As such, the policies described in this section are to be interpreted in light of that overall sense of stewardship, and the investment standards shall be those of a prudent investor. [See Appendix A: Investment Policy]

Funds to be invested do not include those from Federal awards. Such funds will be spent on program requirements as budgeted or returned to the awarding agency. Any advances of Federal funds will be maintained in an interest-bearing account. Interest earned on such funds, up to \$500 per year, will be allocated to federal grants based on a percentage of funds received during the month, and any additional interest will be returned to the Federal Payment Management System (PMS).

29.2 Delegation of Authority

The Investment/Oversight Committee of Audubon Area Community Services has been delegated supervisory authority over the agency's investing activities by the Board under the general responsibility of the Administrative Support Committee. The Investment/Oversight Committee is responsible for regularly reporting on the agency's investments to the full Board of Directors generally through the Administrative Support Committee.

The Investment/Oversight Committee is authorized to retain one or more investment counselors to assume the investment management function. In that regard, the Board may authorize entering into agreements with, delegate investment authority to, pay compensation to, and receive reports from one or more investment counselors.

29.3 Investment Objectives

Audubon Area Community Services' investment objectives are the preservation and protection of the agency's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriate return on investments.

29.4 Accounting Treatment

All purchased investments shall initially be recorded at cost. All investments acquired by donation to Audubon Area Community Services shall initially be recorded at their fair market value as of the date of donation. Donated investments shall be recorded as contribution income with or without donor restrictions based on the existence or absence of such restrictions, as defined earlier.

Subsequent to acquisition, Audubon Area Community Services carries all equity securities with readily determinable fair market values and all debt securities at their market values. Adjustments to market value shall be made in the accounting records and financial statements of Audubon Area Community Services on an annual basis.

Adjustments to market value result in unrealized gains and losses on investments. Such gains and losses resulting from contributed investments (or from investments purchased with contributed funds) shall be classified as net assets without or with donor restrictions based on the existence or absence of explicit

Section 29: Investment Policies

restrictions on such appreciation and depreciation from the donor, as defined earlier. Such unrealized gains and losses from investments purchased with funds without donor restrictions shall be classified as net assets without donor restrictions.

29.5 Procedures and Reporting

The following procedures will be followed to ensure that investments are properly managed and that these investment policies are consistent with the mission of Audubon Area Community Services and accurately reflect the current financial condition of the agency:

1. The chief financial officer shall maintain a schedule of investments and reconcile this schedule with the general ledger and with investment account statements on a monthly basis. The schedule of investments shall include the following information with respect to each investment:
 - a. Date acquired
 - b. Method of acquisition (purchase or donation)
 - c. Cost or basis at acquisition
 - d. Description of investment
 - e. Interest rate (if applicable)
 - f. Date of maturity (if applicable)
 - g. Holder/issuer of security
 - h. Current market value
 - i. Unrealized gain or loss
 - j. Accrued interest receivable (if applicable)
 - k. Income received, year-to-date (i.e., interest, dividends, etc.)
2. The chief financial officer shall prepare a schedule of investments for presentation on a bi-monthly basis for the Administrative Support Committee and on a bi-monthly basis for the Board of Directors.
3. The quarterly investment reports shall detail the portfolio's composition and performance for the quarter and year-to-date, along with a comparison to budget and to the prior year.
4. The annual investment report shall be presented to the Board of Directors at the time the Audubon Area Community Services audit is presented, outlining in detail the investment portfolio's composition and performance for the fiscal year, along with a comparison to appropriate market indices. The report will show results for the most recently-completed fiscal year and for last three years.
5. Investment policies shall be reviewed annually by the chief financial officer and the chief executive officer, working with the Administrative Support Committee, to determine any appropriate modifications.
6. Recommendations for any revisions or modifications to the investment policy will be made by the Administrative Support Committee to the Board of Directors for their approval.

Section 29: Investment Policies

29.6 Accounting for Investments in Other Entities

Non-exempt entities in which the agency possesses a greater-than-50-percent ownership interest shall be consolidated into the financial statements of the agency. A non-exempt entity as used here means any for-profit entity that is not exempt from Federal income taxes, such as corporations, limited partnerships, S Corporations, LLPs, and LLCs, and that issues ownership or interests.

Entities in which the agency holds a 50-percent or less interest, but which the agency exercises significant influence over operating and financial policies, shall be accounted for using the equity method of accounting. Under this method of accounting, an asset account is maintained to track the agency's investment in the entity, and this asset account shall be adjusted upwards or downwards based on the agency's share of the entity's profits or losses.

If the agency holds less than 50 percent of an entity, or does not exercise significant influence, ownership shall be accounted for at the lower of cost or market value.

Section 30: Property and Equipment

30.1 Capitalization Policy

Physical assets acquired with unit costs in excess of \$5,000 are capitalized as property and equipment on the agency's financial statements. Items with unit costs below this threshold shall be expensed in the year purchased. "Unit" is defined as either individual cost or all costs associated with a specific project exceeding the \$5,000 threshold.

If an awarding agency requires a lower amount for equipment, Audubon Area Community Services will adhere to that dollar amount only for that program or contract.

Capital assets are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives, as described later.

Capital assets will be reported as expensed for grants if they were so budgeted in the grant application. With regards to the agency's financial statements, capital assets will be capitalized and depreciated according to these policies.

30.2 Contributed Assets

Prior to accepting contributed assets with fair market value of \$5,000 or more per unit, the Department Director must obtain prior approval from the Chief Financial Officer. Contributed assets with fair market values in excess of \$5,000 (per unit) shall be capitalized as capital assets on the financial statements. Contributed items with market values below this threshold shall be expensed in the year contributed.

Capitalized contributed assets are accounted for at their market value at the time of donation and all such assets, except land and certain works of art and historical treasures, are subject to depreciation over their estimated useful lives, as described later.

Donor-imposed restrictions on contributed assets will be released when the asset is placed into service, unless otherwise stipulated by the donor.

30.3 Equipment and Furniture Purchased With Grant Awards

In addition to those policies described earlier, capital assets charged to grant awards are subject to policies as described below.

For purposes of grant award accounting and administration, capital assets shall include all assets with a unit cost equal to or greater than the capitalization threshold utilized by Audubon Area Community Services described under Section 30.1. (See individual contract for more information).

All purchases of capital assets with grant awards shall be approved, in advance and in writing, by the awarding agency. In addition, the following policies shall apply regarding capital assets purchased and charged to grant awards:

Section 30: Property and Equipment

1. Adequate insurance coverage will be maintained with respect to capital assets charged to grant awards.
2. When a capital asset is no longer needed for its original purpose for which it was purchased:
 - Capital assets with a remaining per unit fair market value below \$5,000 may be retained, sold, or disposed of with no further obligation to the awarding agency. (See individual contract for more information).
 - For capital assets with remaining per unit fair market value of \$5,000 or more, the agency must obtain written disposition instructions from the awarding agency. The instructions may include returning the asset(s) to the awarding agency; keeping the asset(s) and compensating the awarding agency; or selling the asset(s) and remitting the proceeds, less \$500 or 10% of the proceeds, whichever is less to the awarding agency (See 2 CFR Part 200.313(e)).
3. The grant manager shall determine whether a specific award with an awarding agency includes additional capital asset requirements or thresholds and/or requirements that differ from those described above.
4. A physical inventory of all capital assets purchased with grant awards must be performed annually, but not solely by an employee who is responsible for ordering or approving the purchase of these assets and must be approved by the Department Director. The results of the physical inventory shall be reconciled to the agency's asset management system and to the reports filed by Audubon Area Community Services. All adjustments resulting from this reconciliation will be approved by the Department Director and the Chief Financial Officer.

30.4 Establishment and Maintenance of a Capital Asset Listing

All capital assets shall be recorded in the agency's asset management system. This system shall include the following information with respect to each asset (2 CFR Part 200.313(d)(1)):

1. Date of acquisition
2. Cost
3. Description (including color, make, model, and serial number or other identification number)
4. Source of the funds used for the purchase, including the contract/grant award number, if applicable
5. Whether the title vests in the agency or the awarding agency
6. Information to calculate the Federal share of the cost of the equipment, if applicable
7. Location of asset, use and condition
8. Depreciation method
9. Estimated useful life
10. Ultimate disposition data including the date of disposal and sale price

Section 30: Property and Equipment

30.5 Receipt of Newly-Purchased Equipment and Furniture

At the time of arrival, all newly-purchased capital and/or controlled assets shall be examined for obvious physical damage. If an asset appears damaged or is not in working order, it shall be returned to the contractor immediately. In addition, descriptions and quantities of assets per the packing slip or bill of lading shall be compared to the assets delivered. Discrepancies should be resolved with the contractor immediately.

30.6 Depreciation and Useful Lives

All capitalized assets are maintained in the property and equipment account group and are not included as an operating expense in the agency's financial statements. Capital assets are depreciated over their estimated useful lives using the straight-line method.

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, starting with the month following the acquisition. (Example: an asset purchased on the 15th day of the fifth month shall have seven full months of depreciation (seven-twelfths of one year) recorded for that year.)

Estimated useful lives of capital assets shall be determined by the Chief Financial Officer. The following is a list of the estimated useful lives of each category of capital asset for depreciation purposes:

Buildings and building improvements	Up to 40 years
Furniture and fixtures	Up to 10 years
Equipment and machinery	Up to 10 years
Computer hardware and peripherals	3-5 years
Computer software	3 years
Vehicles	5 years
Land Improvements	Up to 10 years
Leased assets	Shorter of remaining lease term or estimated useful life of asset
Leasehold Improvements	Shorter of remaining lease term or useful estimated life of asset

For accounting and interim financial reporting purposes, depreciation expense will be recorded on a quarterly basis.

Section 30: Property and Equipment

30.7 Changes in Estimated Useful Lives

If it becomes apparent that the useful life of a particular capital asset will be less than the life originally established, an adjustment to the estimated useful life shall be made. All such changes in estimated useful lives of capital assets must be approved by the Chief Financial Officer.

When a change in estimated useful life is made, the new life is used for purposes of calculating annual depreciation expense. In the year in which the change in estimate is made, the cumulative effect of the change shall be reflected as depreciation expense in the agency's statement of activities.

For example, if in the fourth year of an asset's life, it is determined that the asset will last five years instead of the original estimate of seven years, depreciation expense for that year shall be equal to the difference between 4/5 of the asset's basis (accumulated depreciation at the end of year four) and 3/7 of the asset's basis (accumulated depreciation at the beginning of the year).

30.8 Repairs of Property and Equipment

Expenditures to repair capital assets shall be expensed as incurred if the repairs do not materially add to the value of the property or materially prolong the estimated useful life of the property.

Expenditures to repair capital assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

30.9 Dispositions and Transfers of Property and Equipment

If a capital asset is sold, scrapped, donated or stolen, adjustments shall be made to the asset management system. If money is received for the asset, then the difference between net book value (purchase price less depreciation) and the amount received will be recorded as either a loss or gain in the statement of activities of the agency's financials. For vehicles, sales or other disposals are not complete without returning the license to and obtaining a release from the County Clerk's office. For property, sales or other disposals are not complete without proper filing of the deed transferring ownership from the agency to new owner. Insurance must not be removed until these steps are complete.

Transfers occur when a capital asset is relocated to another location within the same fund or another fund. Transfers will not be processed without approval from the Department Director(s) and the Chief Financial Officer for transfers between programs.

30.10 Write-Offs of Property and Equipment

The Department Director must notify the Chief Financial Officer of capital assets that may be worn out or obsolete. Property that is discovered to be missing or stolen will be reported immediately to the

Section 30: Property and Equipment

Chief Financial Officer. If not located, this property will be written off the books, pending an incident investigation, with the proper notation specifying the reason.

30.11 Controlled Assets

Controlled assets are defined as non-expendable property with an acquisition cost of the less than \$5,000 and a useful life of more than three years.

Department Directors should defer to their grant award contracts for more restrictive definitions. Department Directors must advise the Finance Department when a more restrictive than usual standard/definition of property is required by their respective contract.

A record of all controlled assets will be maintained in an asset management system using the same criteria as stated in Section 30.4, with the exception of items 8 and 9.

All controlled assets must be inventoried at least once every two years or more frequently per individual contract. The results of the physical inventory shall be provided to the respective Department Director for review and approval and forwarded to the Finance Department for recordkeeping.

30.12 Asset Impairments

Long-lived assets of the agency include equipment, land, buildings, intangible assets, and other noncurrent assets. The agency will record an impairment loss when the carrying amount (book value, net of any accumulated depreciation or amortization) is both:

1. Not recoverable (through sale, etc.); and
2. In excess of the asset's fair value.

Long-lived assets will be tested for impairment whenever events or changes in circumstances indicate that an asset's carrying value may be impaired. Examples of such events or circumstances that the agency will consider include:

1. A significant decrease in the market price of a long-lived asset.
2. A significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition.
3. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action by a regulator.
4. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset.
5. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that indicates continuing losses associated with the use of a long-lived asset.
6. A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Section 30: Property and Equipment

If the agency records an impairment loss in connection with a long-lived asset subject to depreciation or amortization, the reduced basis resulting from recording the loss will be used as a new basis for calculating future periods' depreciation or amortization.

30.13 Personal Items

Employee personal items located in their offices or other agency premises are *individual private property*. These items should be labeled by the respective owners so as to prevent later questions arising as to the true ownership of those items.

Section 31: Leases

31.1 Classification of Leases

Audubon Area Community Services classifies all leases in which the agency is a lessee as either capital or operating leases. Audubon Area Community Services shall utilize the criteria described in Statement of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

1. The lease transfers ownership to Audubon Area Community Services at the end of the lease term;
2. The lease contains a bargain purchase option;
3. The lease term is equal to 75% or more of the estimated economic life of the leased property; or
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased property (using, as the interest rate, the lesser of Audubon Area Community Services' incremental borrowing rate or, if known, the lessor's implicit rate).

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases. All new capital leases or changes to capital leases must be approved by the executive director.

31.2 Reasonableness of Leases

Audubon Area Community Services assess the value of leases according to the requirements of 2 CFR Part 200.465, Rental Costs of Real Property and Equipment as follows:

- The rate is reasonable when compared to similar property in the same area,
- The rate of any alternatives, and
- The type, life expectancy, condition and value of the property leased.

Rental arrangements will be reviewed every 3 to 5 years to determine if circumstances have changed and other options are available.

31.3 Accounting for Leases

All leases that are classified as operating leases and immaterial capital leases shall be accounted for as expenses in the period in which the lease payment is due. For leases with firm commitments for lease payments that vary over the term of the lease (i.e., a lease with fixed annual increases that are determinable upon signing the lease), the amount that Audubon Area Community Services shall recognize as monthly lease expense shall equal the average monthly lease payment over the entire term of the lease. Differences between the average monthly payment and the actual monthly payment shall be accounted for as an asset or liability.

All leases that are classified as capital leases shall be treated as capital asset additions. As such, upon the inception of a capital lease, Audubon Area Community Services shall record a capitalized asset and a liability under the lease, based on the net present value of the minimum lease payments (or the fair

Section 31: Leases

value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The capitalized asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation.

Audubon Area Community Services shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms, including a schedule of future annual lease payments obligations.

31.4 Changes in Lease Terms

As described in earlier policies, leasehold improvements and deferred rent incentives are amortized over the initial lease term. If such lease term is changed prior to the expiration of the initial lease term, Audubon Area Community Services will revise amortization to reflect the remaining lease term as of the effective date of the lease modification.

Section 32: Software Acquisition and Development Costs

32.1 Software Acquisition Costs to be Capitalized

Certain costs incurred in connection with the acquisition or development of internal-use software shall be capitalized and reported as an asset of the agency. Those costs that shall be capitalized are those that are in excess of the agency's capitalization threshold (explained earlier) and that meet any one of the following criteria:

1. External direct costs (i.e., amounts paid to contractors) of materials and services for developing or obtaining internal-use software ("developing" to include design, coding, installation and testing);
2. Internal payroll and related costs (employee benefit costs) for employees who are directly associated with, and who devote time to, an internal-use software project (i.e., the same types of software development costs described above);
3. Interest costs incurred in developing software; and
4. Costs associated with upgrades and enhancements when it is probable that these expenditures will result in additional functionality.

Costs that are capitalized in connection with the preceding policy shall be included as assets on the agency's property and equipment listing, and shall be amortized over an estimated useful life in accordance with the previously stated policies on depreciation and amortization.

32.2 Costs to be Expensed as Incurred

Many costs associated with acquiring or developing internal-use software are to be expensed as incurred, rather than capitalized, including:

1. External and internal costs incurred in the preliminary project phases, such as costs associated with making decisions to allocate resources to the project, determining performance requirements and specifications, and reviewing and selecting contractors and consultants;
2. Research and development costs;
3. General and administrative costs;
4. Data conversion;
5. Training costs; and
6. Internal maintenance costs.

Section 33: Web Site Costs

33.1 Web Site Costs to Be Capitalized

Certain costs incurred in connection with the development of the agency's web site shall be capitalized and reported as an asset of the agency. Those costs that shall be capitalized are those that are in excess of the agency's capitalization threshold (explained earlier) and that meet any of the following criteria:

1. Application and infrastructure development costs, including:
 - a. Development or acquisition of any software necessary to develop or operate the web site (e.g. HTML editor software, graphics software, etc.)
 - b. Development or acquisition and customization of code for web applications (e.g. search engines, order processing systems, etc.)
 - c. Development or acquisition and customization of database software needed to integrate applications
 - d. Development of HTML web pages or development of templates and writing of code to automatically create HTML pages
 - e. Obtaining and registering an Internet domain name
 - f. Installation of developed applications on the server(s)
 - g. Creation of initial hypertext links to other web sites or to destinations within the agency's site
 - h. Testing the site applications
2. Graphics and content development costs, including the initial creation of graphics to be used on the site, the design or layout of each page, color images, and the overall look and feel and usability of the site (e.g. buttons, borders, etc.), but NOT including the initial loading of content into the site, the costs of which are to be expensed as incurred.

Costs that are capitalized in connection with the preceding policy shall be included as assets on the agency's property and equipment listing, and shall be amortized over an estimated useful life in accordance with the previously stated policies on depreciation and amortization.

33.2 Costs to Be Expensed As Incurred

Many costs associated with the agency's web site are to be expensed as incurred, rather than capitalized, including the loading of content into the designed pages, as well as:

1. Planning stage costs, such as:
 - a. Development of a project or business plan
 - b. Determining functionalities or specifications of the site
 - c. Determining hardware and technology requirements
 - d. Conceptual formulation of graphics and content
 - e. Evaluation and selection of vendors
 - f. Addressing legal considerations, such as copyright and trademark issues

Section 33: Web Site Costs

2. Operating costs, such as:
 - a. Training employees involved in support of the site
 - b. Registering the site with search engines
 - c. User administration activities
 - d. Updating site graphics
 - e. Performing backups
 - f. Creating new links
 - g. Verifying that links are functioning properly
 - h. Adding new functionalities or features (however, see below)
 - i. Performing routine security reviews
 - j. Performing routine analysis

Certain upgrades and enhancements to the site shall be capitalized and amortized over an estimated useful life. Upgrades or enhancements that result in additional functionality shall be capitalized.

Section 34: Accrued Liabilities

34.1 Identification of Liabilities

The Finance Department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by Audubon Area Community Services at the end of an accounting period are:

- Salaries and wages
- Payroll taxes
- Vacation pay (see policy below)
- Rent
- Interest on notes payable

In addition, Audubon Area Community Services shall record a liability for deferred revenue (revenue received but not yet earned) in accordance with the revenue recognition policies described elsewhere in this manual. Adjustments to deferred revenue accounts shall be made monthly.

34.2 Accrued Leave

Personnel policies permit employees to carry forward some unused annual leave from year to year. Such unused leave may be payable to an employee upon termination of employment.

Accordingly, Audubon Area Community Services records a liability for accrued leave to which employees are entitled. The total liability at the end of an accounting period shall equal the total earned but unused hours of leave, up to a maximum number of hours based on years of service, multiplied by each employee's current hourly pay rate.

Leave that does not "vest" with employees (i.e., leave that is not paid to employees if unused at the time of termination of employment), such as sick leave, shall not be accrued as a liability. [See PPPM, Section 5]

Section 35: Notes Payable

35.1 General Policy

Audubon Area Community Services requires that all notes payable be approved by the Board of Directors and signed by the chief executive officer.

35.2 Recordkeeping

Audubon Area Community Services maintains a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

1. Name and address of lender
2. Date of agreement or renewal/extension
3. Total amount of debt or available credit
4. Amounts and dates borrowed
5. Description of collateral, if any
6. Interest rate
7. Repayment terms
8. Maturity date
9. Address to which payments should be sent
10. Contact person at lender

35.3 Accounting and Classification

An amortization schedule shall be maintained for each note payable. Based upon the amortization schedule, the principal portion of payments due with the next year shall be classified as a current liability in the statement of financial position. The principal portion of payments due beyond one year shall be classified as long-term/non-current liabilities in the statement of financial position.

Demand notes and any other notes without established repayment dates shall always be classified as current liabilities.

Unpaid interest expense shall be accrued as a liability at the end of each accounting period.

A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

Section 35: Notes Payable

35.4 Non-Interest-Bearing Notes Payable

As a charitable agency, Audubon Area Community Services may, from time-to-time, receive notes payable that do not require the payment of interest, or that require the payment of a below-market rate of interest for the type of obligation involved. In such cases, Audubon Area Community Services will record contribution income for any unpaid interest.

For demand loans, recording of interest expense and contribution income shall be performed at the end of each accounting period, based on the outstanding principal balance of the loan during that period, multiplied by the difference between a normal interest rate for that type of loan and the rate, if any, that is required to be paid.

For loans with fixed maturities or payment dates, the note payable shall be recorded at the present value of the future principal payments, using as a discount rate the difference between a normal interest rate for that type of loan and the rate, if any, required to be paid. The difference between the cash proceeds of the note and the present value shall be recorded as contribution income in the period the loan is made. Thereafter, interest expense shall be recorded in each accounting period using the effective interest method, with the corresponding credit entry increasing the note payable account to reflect the amount(s) that shall be repaid.

Section 36: Net Assets

36.1 Classification of Net Assets

Net assets of the agency shall be classified based upon the existence or absence of donor-imposed restrictions as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor imposed restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor imposed restrictions that are specific in nature and may be set aside for programs, investments, contingencies, purchases, special projects, or other uses.

Net assets without donor imposed restrictions, but earmarked for specific uses by the Board of Directors of the agency shall be segregated in the accounting records as "board-designated" funds.

Donor-imposed restrictions are stipulations by the donor that may be temporary in nature (e.g., stipulating that resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment). A purpose stipulation will be considered a restriction only if it is more specific than the broad limits resulting from the nature of the agency, the environment in which it operates, and the purposes specified in Audubon Area Community Services' Articles of Incorporation and Bylaws.

Other donors impose restrictions that are perpetual in nature (e.g., stipulating that resources be maintained in perpetuity, or endowments). Laws may extend the limits in investment returns from those resources and to other enhancements or diminishments of those resources. Thus, those laws extend donor-imposed restrictions.

36.2 Composition of Net Assets

Net asset composition of the agency's endowment funds and board-designated funds will be disclosed as follows, when applicable:

Board-Designated Net Assets – Net assets without donor restrictions subject to self-imposed limits action of the Board of Directors (see FPPM Section 46 for more information).

Donor Restricted Endowment – Funds subject to trust law or donor-imposed restrictions requiring the investment of the gift in perpetuity or for a specified term, the amount of which includes the original donor-restricted gift and any gains or net appreciation of the fund not considered to be available for expenditure.

Underwater Endowment Fund – A donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions. The amount of these net assets will include original donor restricted gift and accumulated losses.

Section 36: Net Assets

36.3 Reclassifications of Net Assets

The agency shall report in its statement of activities a reclassification from with donor restrictions to without donor restrictions net assets if any of the following events occur:

1. Fulfillment of the purpose for which the net assets were restricted (e.g. spending restricted funds for the stipulated purpose)
2. Expiration of time restrictions imposed by donors
3. Death of an annuity beneficiary
4. Withdrawal by the donor (or by a court) of a time or purpose restriction.

If a donor stipulates multiple restrictions (such as a purpose and a time restriction), reclassifications of net assets shall be reported only upon the satisfaction of the final remaining restriction.

If the agency receives a restricted contribution from a donor who further stipulates that the agency set aside a portion of its net assets without donor restrictions for that same purpose, the agency shall report in its statement of activities a reclassification of net assets from without donor restrictions to with donor restrictions, based on the specific nature of the restriction.

36.4 Disclosures

The agency discloses in a footnote to the financial statements the different types of donor restrictions and board designations associated with the agency's net assets as of the end of each fiscal year.

Section 37: Financial Statements

37.1 Standard Financial Statements of the Agency

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the agency. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

The basic financial statements that are maintained on an agency-wide basis shall include:

1. **Statement of Financial Position** - reflects assets, liabilities, and net assets of the agency and classifies assets and liabilities as current or non-current/long-term and net assets in two groups (net assets without donor restrictions or net assets with donor restrictions).
2. **Statement of Activities** - presents support, revenues, expenses, and other changes in net assets of the agency, by net asset group (net assets without donor restrictions and net assets with donor restrictions), including reclassifications between net asset groups.
3. **Statement of Cash Flows** - reports the cash inflows and outflows of the agency in three categories: operating activities, investing activities, and financing activities.
4. **Statement of Functional Expenses** – presents the expenses of the agency in a natural or objective format and by function (i.e., which program or supporting service was served).

37.2 Frequency of Preparation

The objective of the Finance Department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:

A standard set of financial statements described in the preceding section shall be produced on a quarterly basis, by the end of the month following the close of the quarter. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:

1. Individual statements of activities on a departmental and functional basis (and/or program/grant basis).
2. Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts.

The quarterly set of financial statements shall be prepared on the accrual method of accounting, including all receivables, accounts payable received by the end of the month following the close of the quarter, and actual depreciation expense.

Section 37: Financial Statements

37.3 Review and Distribution

All financial statements and supporting schedules shall be review and approved by the chief financial officer prior to being issued by the Finance Department.

After approval by the chief financial officer, a complete set of quarterly financial statements, including the supplemental schedules described above, shall be distributed to the following individuals:

- Members of the Administrative Support Committee
- Chief Executive Officer
- Department directors and any other employee with budget-monitoring responsibilities

Financial statements may include an additional supplemental schedule prepared or compiled by the chief financial officer. The purpose of this schedule is to provide known explanations for material budget variances in accordance with Audubon Area Community Services' budget monitoring policies described later in this manual (under the "Financial Management Policies" section).

All financial reports, which are to be distributed to Board of Directors or to anyone outside the agency, must have the approval of the chief executive officer or the chief financial officer.

The agency's chief executive officer and chief financial officer shall certify and execute with their signatures that financial statements that are submitted to the Board of Directors have to the best of their knowledge been honestly and accurately prepared and presented and that no information pertaining to the financial condition of the agency or its programs has been withheld, restricted, or ambiguously presented.

37.4 Budget Variance Analysis and Projections

On a quarterly basis, financial statements distributed to department directors with budgetary responsibilities shall be accompanied by a request for variance analysis and projections. Each department director shall work with the chief financial officer to monitor budget variances and trends within their department.

37.5 Monthly Distribution

On a monthly basis, the Board of Directors will be provided with summary program and/or grant financial information.

37.6 Annual Financial Statements

A formal presentation of the agency's annual financial statements shall be provided by the Independent Auditor to the full Board of Directors at the agency's Annual Meeting. This presentation will be preceded by a meeting with the Administrative Support Committee, at which the Administrative Support Committee will vote to accept or reject the annual financial statements. See separate policies regarding the annual audit under "Financial Management Policies."

37.7 Trend Analysis

On an annual basis, in connection with the preparation of the preceding financial statements, the chief financial officer shall prepare a five-year revenue and expense report in order to facilitate the analysis of financial trends experienced by the agency. This report shall also include a five-year comparison of certain key operating ratios, based on the agency's annual financial statements. This report shall be submitted to the chief executive officer, the Administrative Support Committee and/or the Audit Review Committee no later than 90 days after year end.

Reporting to Funding Sources — the agency has a variety of funding sources, each unique and requiring a variety of reporting formats and reporting dates. To assure that all reports are timely submitted, the following procedures will be followed:

1. The chief financial officer is responsible for supervising the preparation of all financial reports required by funding sources. As part of this responsibility, the chief financial officer will make sure there is a file for each funding source or program, which contains copies of all reports by program year, blank reports, and reporting instructions.
2. The department director will receive a copy of each financial report for review and will maintain a report file by year. Discrepancies or questions will be directed to the chief financial officer.
3. The chief executive officer will receive a copy of each report. The chief executive officer or chief financial officer are the authorized officials to approve and sign financial reports or in the absence of the chief executive officer or chief financial officer, the fiscal manager.

Section 38: Government Returns

38.1 Overview

To legitimately conduct business, Audubon Area Community Services must be aware of its tax and information return filing obligations and comply with all such requirements of Federal, state and local jurisdictions. Filing requirements of Audubon Area Community Services include, but are not limited to, filing annual information returns with IRS, state charitable solicitation reports, annual reports for corporations, property tax returns, income tax returns, annual reporting of compensation paid, and payroll tax withholding tax returns as required.

38.2 Filing of Returns

The chief financial officer shall be responsible for identifying all filing requirements and assuring that Audubon Area Community Services is in compliance with all such requirements. The agency will file complete and accurate returns with all authorities and make all efforts to avoid filing misleading, inaccurate, or incomplete returns.

Filings made by Audubon Area Community Services include, but are not limited to, the following returns:

1. **Form 990** - Annual information return of tax-exempt organizations, filed with IRS. Form 990 for Audubon Area Community Services is due on the fifteenth day of the fifth month following year-end. An automatic 3-month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first 3-month extension, a second 3-month extension may be requested using Form 8868.
2. **Form 990-T** - Annual tax return to report Audubon Area Community Services' unrelated trade or business activities (if any), filed with IRS. Form 990-T is due on the fifteenth day of the fifth month following year-end. An automatic 6-month extension of time to file Form 990-T may be obtained by filing Form 8868.
3. **W-2's and 1099's** - Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to Federal Government by February 28.
4. **Form 940** - Annual Federal unemployment tax return filed with IRS, for all employers [other than charitable organizations exempt from FUTA (but not necessarily state unemployment tax) under IRC section 501(c)(3)], due January 31.
5. **Form 941** - Quarterly payroll tax return filed with IRS to report wages paid to employees and Federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.
6. **Form 5500** – Annual return of Audubon Area's employee benefit plans. Form 5500 is due the last day of the seventh month after the end of the plan year. A 2 ½ month extension of time to file may be requested using Form 5558.

Audubon Area Community Services complies with all state payroll tax requirements by withholding and remitting payroll taxes to the state of residency of each Audubon Area Community Services employee.

Section 38: Government Returns

38.3 Public Access to Information Returns

Under regulations that became effective in 1999, Audubon Area Community Services is subject to Federal requirements to make the following forms "widely available" to all members of the general public:

1. The three most recent annual information returns (Form 990, and
2. Audubon Area Community Services' original application for recognition of its tax-exempt status (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.

Audubon Area Community Services adheres to the following guidelines in order to comply with the preceding public disclosure requirements:

Audubon Area Community Services shall comply with the Federal requirements to make its forms widely available by posting all required forms on the agency's web site and referring all requesters to this web site within 7 days of receipt of any request for copies. In addition to making its returns widely available on its web site, Audubon Area Community Services will also permit visual inspections of its returns to anyone personally appearing at the agency's offices during normal working hours and making such a request.

Section 39: Unrelated Business Activities

39.1 Identification and Classification

Audubon Area Community Services properly identifies and classifies income-producing activities that are unrelated to the agency's tax-exempt purpose using the guidelines described in the Internal Revenue Code and underlying regulations. Such income accounts shall be segregated in separate accounts in the general ledger in order to facilitate tracking and accumulation of unrelated trade or business activities.

39.2 Allocation of Expenses to Unrelated Activities

In addition to segregating income associated with activities that are unrelated to Audubon Area Community Services' exempt purpose, the agency's general ledger shall also provide accounts for expenses associated with each such unrelated activity. These expenses shall be offset against unrelated business revenue in arriving at unrelated business taxable income. Expenses that shall be offset against gross unrelated business income shall be limited to those expenses directly associated with the production of such income, including reasonable allocation of indirect costs that benefit each activity, in accordance with expense allocation policies described elsewhere in this manual.

39.3 Reporting

Audubon Area Community Services will file IRS Form 990-T to report taxable income from unrelated trade or business activities. Form 990-T is subject to any public access and disclosure requirements

Audubon Area Community Services shall also report taxable income from unrelated trade or business activities that are subject to state or local income or franchise taxes on the appropriate return.

Section 40: Budgeting

40.1 Budgeting Overview

Budgeting is an integral part of managing any agency in that it is concerned with the translation of organizational goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the agency's financial and human resources. A budget is a management commitment of a plan for present and future organizational activities that will ensure survival. It provides an opportunity to examine the composition and viability of the agency's programs and activities simultaneously in light of the available resources.

Budgets are also prepared for funding sources and each department director must be aware of budget modification requirements. Awarding agencies may or may not require approval for changes in line items. Audubon Area Community Services will document and follow all such requirements.

40.2 Preparation and Adoption

Audubon Area Community Services will prepare an annual budget on the accrual basis of accounting. The chief financial officer gathers proposed agency-wide budget information from all department directors and others with budgetary responsibilities and prepares the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all department budgets by the chief financial officer, a draft of the agency-wide budget, as well as individual department budgets, is presented to the chief executive officer for discussion, revision, and initial approval.

The revised draft is then submitted to the Administrative Support Committee, and finally to the entire Board of Directors for adoption.

In the case of Head Start, the budget will also be submitted to the Head Start Policy Council for the consideration and approval in accordance to 45 CFR 1304.50 ("shared governance").

It is the policy of Audubon Area Community Services to adopt a final budget at least 30 days before the beginning of the agency's fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the Finance Department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

Budgets for programs that are not on the agency's fiscal year will be prepared in accordance with awarding agency requirements.

Section 40: Budgeting

40.3 Monitoring Performance

Audubon Area Community Services monitors its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by the Finance Department and distributed to each employee with budgetary responsibilities.

In addition, department directors shall submit monthly performance (non-financial) reports to the chief executive officer, the chief financial officer and Board of Directors as requested.

The department director is responsible for monitoring and reviewing all financial information including any financial reports, which are either computer generated or manually prepared for his or her program. Discrepancies or questions are to be resolved through the chief financial officer.

40.4 Budget and Program Revisions

Audubon Area Community Services will request prior approval from Federal awarding agencies for any of the following program or budget revisions:

1. Change in the scope or objective of the project or program, even if there is no associated budget revision requiring prior written approval.
2. Change in a key person (department director, etc.) specified in the application or award document.
3. Disengagement for more than three months, or a 25 percent reduction in time devoted to the project, by the approved department director or principal investigator.
4. The need for additional Federal funding.
5. The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with 2 CFR Part 200.407, Prior Written Approval.
6. The transfer of funds allotted for participant support costs to other categories of expense.
7. Unless described in the application and funded in the approved awards, the sub-award, transfer or contracting out of any work under an award. (However, this provision does not apply to purchases of supplies, materials, equipment or general support services.)
8. Changes in the amount of the approved cost-sharing or matching provided by the agency.

Section 40: Budgeting

40.5 Budget Modifications

After a budget has been approved by the Board of Directors and adopted by the agency, reclassifications of budgeted expense amounts must be approved by the chief financial officer.

Section 41: Annual Audit

41.1 Role of the Independent Auditor

Audubon Area Community Services will arrange for an annual audit of the agency's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by the Board of Directors will be required to communicate directly with the agency's Audit Review Committee upon the completion of their audit. In addition to the chief financial officer and the chief executive officer, the Board chair is authorized to initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the Board of Directors by the independent accounting firm at the agency's Annual Meeting, after the financial statements have been reviewed and approved by the Audit Review Committee.

41.2 How Often to Review the Selection of the Auditor

Audubon Area Community Services shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm
2. When a fresh perspective and new ideas are desired
3. Every five years to ensure competitive pricing and a high quality of service (this is not a requirement to change auditors every five years; simply to re-evaluate the selection)

41.3 Selecting an Auditor

The selection of an accounting firm to conduct the annual audit is a task that should be taken very seriously. The following factors shall be considered by Audubon Area Community Services in selecting an accounting firm:

1. The firm's reputation in the nonprofit community
2. The depth of the firm's understanding of and experience with not-for-profit organizations and Federal reporting requirements under 2 CFR Part 200.
3. The firm's demonstrated ability to provide the services requested in a timely manner
4. The ability of firm personnel to communicate with agency personnel in a professional and congenial manner

If Audubon Area Community Services decides to prepare and issue a written Request for Proposal (RFP) to be sent to prospective audit firms, the following information shall be included:

1. Period of services required
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)
4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings
5. Organizational chart of Audubon Area Community Services
6. Chart of account information

Section 41: Annual Audit

7. Financial information about the agency
8. Copy of prior year reports (financial statements, management letters, etc.)
9. Identification of need to perform audit in accordance with 2 CFR Part 200.500-521 and the appropriate compliance supplements.
10. Other information considered appropriate
11. Description of proposal and format requirements
12. Due date of proposals
13. Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
14. Identification of criteria for selection

Minimum Proposal Requirements from prospective CPA firms shall be:

1. Firm background
2. Biographical information (resumes) of key firm member who will serve Audubon Area Community Services
3. Client references
4. Information about the firm's capabilities
5. Firm's approach to performing an audit
6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
7. Other resources available with the firm
8. Expected timing and completion of the audit
9. Expected delivery of reports
10. Cost estimate including estimated number of hours per staff member
11. Rate per hour for each auditor
12. Other information as appropriate

In order to narrow down the proposals to the top selections, the chief financial officer shall meet with the prospective engagement teams from each proposing firm to discuss their proposal. The Audit Review Committee will be involved in the process of reviewing bids/proposals for auditing services and shall serve in an advisory capacity to the chief executive officer in selecting the agency's independent audit firm(s). With the consultation of the chief financial officer and the Audit Review Committee, the chief executive officer shall retain the audit firm selected.

Section 41: Annual Audit

41.4 Preparation for the Annual Audit

Audubon Area Community Services shall be actively involved in planning for and assisting with the agency's independent accounting firm in order to ensure a smooth and timely audit of its financial statements. In that regard, the Finance Department shall provide assistance to the independent auditors in the following areas:

Planning - The chief financial officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.

Involvement - agency staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

Interim Procedures - To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the agency's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Agency staff will provide requested schedules and documents to assist the auditors during any interim audit fieldwork.

Throughout the audit process, Audubon Area Community Services will make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

41.5 Concluding the Audit

Upon receipt of a draft of the audited financial statements of Audubon Area Community Services from its independent auditor, the chief financial officer shall perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of Audubon Area Community Services
3. Review each footnote for accuracy and completeness

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the chief financial officer.

It shall also be the responsibility of the chief financial officer to review and respond in writing to all management letter or other internal control and compliance report findings and recommendations made by the independent auditor.

In addition, the Single Audit Clearinghouse form shall be completed and a copy submitted to the Audit Review Committee.

Section 41: Annual Audit

41.6 Audit Review Committee Responsibilities

In accordance with the Audubon Area Community Services By-Laws of the Board of Directors, there shall be an Audit Review Committee consisting of at least three members. See the “Board Governance” [Sections 44-45] for a detailed description of the Audit Review Committee’s responsibilities and its authority.

Section 42: Insurance

42.1 Insurance Overview

It is fiscally prudent to have an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of Audubon Area Community Services.

Audubon Area Community Services maintains adequate insurance against general liability, as well as coverage for buildings, contents, computers, fine arts, equipment, machinery and other items of value.

42.2 Coverage Guidelines

As a guideline, Audubon Area Community Services will arrange for the following types and levels of insurance as a minimum:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Comprehensive Liability	\$1,000,000
Sexual Molestation	\$1,000,000
Automobiles for Employees, Volunteers, or Escorts	\$1,000,000
Umbrella Liability	\$5,000,000
Employee dishonesty/bonding	\$1,300,000 for all Finance Department employees and the chief executive officer
Directors and Officers	\$3,000,000
Theft	Coverage for all items with acquisition cost greater than \$1,000
Workers' Compensation	To the extent required by law

Audubon Area Community Services shall maintain a detailed listing of all insurance policies in effect. This listing shall include the following information, at a minimum:

1. Description (type of insurance)
2. Agent and insurance company, including all contact information
3. Coverage and deductibles
4. Premium amounts and frequency of payment
5. Policy effective dates
6. Date(s) premiums paid and check numbers

Section 42: Insurance

42.3 Insurance Definitions

Workers' Compensation and Employer's Liability

Contractors are required to comply with applicable Federal and state workers' compensation and occupational disease statutes. If occupation diseases are not compensated under those statutes, they shall be covered under the employer's liability insurance policy, except when contract operations are so commingled that it would not be practical to require this coverage.

Fidelity Bond

For all personnel handling cash, preparing or signing checks, Audubon Area Community Services shall obtain insurance that provides coverage in a blanket fidelity bond. The specific needs of the agency will determine the dollar limit of this coverage.

Comprehensive Liability

This type of coverage may include directors, officers and employee general liability insurance, buildings, contents, computers, fine arts, boilers and machinery.

Section 43: Record Retention

43.1 Record Retention Policy

Audubon Area Community Services retains records as required by law and destroys them when appropriate. The destruction of records must be approved by the chief financial officer, and logged into the agency's [Destroyed Records Log]. The formal records retention policy of Audubon Area Community Services is as follows:

Accident reports/claims (settled Cases)	7 Years
Accounts payable ledgers and schedules	7 Years
Accounts receivable ledgers and schedules	7 Years
Audit reports	Permanently
Bank reconciliations	3 Years
Bank Statements	3 Years
Chart of Accounts.....	Permanently
Cancelled Checks.....	7 Years
Contracts, mortgages, notes and leases:	
Expired	7 Years
Still in effect	Permanently
Correspondence:	
General.....	2 Years
Legal and important matters only.....	Permanently
Routine with customers and/or vendors	2 Years
Deeds, mortgages and bills of sales	Permanently
Depreciation schedules.....	Permanently
Duplicate deposit slips	3 Years
Employment applications	1 year
Expense analyses/expense distribution schedule	7 Years
Financial statements:	
Year end	Permanently
Other	Optional
Garnishments.....	7 Years
General ledgers/year end trial balance	Permanently
Insurance policies (expired)	3 Years
Insurance records (policies, claims, etc.)	Permanently
Internal audit reports.....	3 Years +
Internal reports	3 Years
Inventories of products, materials and supplies.....	7 Years
Invoices (to customers, from vendors)	7 Years
Journals	Permanently
Minute books of directors, bylaws and charters	Permanently
Notes receivable ledgers and schedules.....	7 Years
Payroll records and summaries.....	7 Years
Personnel records (terminated).....	Permanently
Petty cash vouchers	3 Years
Physical inventory tags	3 Years
Property records (incl. depreciation schedules)	Permanently

Section 43: Record Retention

Purchase orders:

Purchasing department copy	7 Years
Other copies	1 Year
Receiving sheets	1 Year
Retirement and pension records	Permanently
Requisitions	1 Year
Sales records	7 Years
Subsidiary ledgers	7 Years
Tax returns and worksheets, examination reports and other documents relating to determination of income tax liability	Permanently
Time sheets/cards	7 Years
Trademark registrations and copyrights	Permanently
Training manuals	Permanently
Voucher register and schedules	7 Years
Withholding tax statements	7 Years

Section 44: Administrative Support Committee

44.1 Purpose

The Administrative Support Committee assists the Board of Directors in providing oversight and support for the general administrative, fiscal (primarily through its Audit Review Committee), infrastructure, technology, personnel, equal opportunity, marketing, and long range/strategic planning functions and services of the agency.

44.2 Authority

The Administrative Support Committee, as a standing committee of the Board shall have assigned duties and responsibilities in accordance with the By-Laws of the Board of Directors [see Appendix A]. The Committee has the duty to perform its work and make reports to the Board of Directors or the Executive Committee. The Committee may appoint subcommittees to assist in internal agency oversight. The Committee meets on a regular basis and calls special meetings as deemed necessary in fulfilling its responsibilities as described in the By-Laws of the Board of Directors and this policy.

The Administrative Support Committee has authority to participate in the review, recommendations, and actions of any of its subcommittees including the Audit Review Committee which has specific oversight responsibilities for the financial reporting and internal controls.

44.3 Membership

The Administrative Support Committee is a standing committee of the Board of Directors, comprised of not less than three members of the Board appointed by the Chairperson of the Board. Members of the Committee shall have no relationship to the agency that may interfere with the exercise of their independence from management and the agency.

44.4 Responsibilities

The Administrative Support Committee's role is one of providing oversight and support to the Board and its committees. Recognizing that the agency's management is responsible for financial management and for preparing the agency's financial statements, the Committee shall have oversight responsibilities in certain areas of financial management and reporting. Most of these fiscal functions are reportable to the Board for further review and action. These functions are as follows:

- Develop and monitor policies/procedures and long-range/strategic plans
- Oversee the agency's assets, including policies for safekeeping/protection of those assets;
- Review and evaluate the agency's financial viability;
- Review the annual budget and recommend it to the full Board for approval;
- Review new initiatives involving requests for funding;
- Review the agency's cash flow management;
- Review the financial impact of agenda items being considered by the full Board;
- Monitor budget implementation and accounting and financial policies and procedures;
- Review bi-monthly financial reports and monitor financial performance against budget;
- Review overall organizational risk management and adequacy of insurance coverage
- Review all borrowing arrangements of the agency;

Section 44: Administrative Support Committee

- Review annual income tax and information returns filed with the Internal Revenue Service and State government agencies;
- Oversee the management of the agency's investments, including review of investment policies, use of external investment managers, and other matters associated with investment management. [The Investment/Oversight Committee as a subcommittee of the Administrative Support Committee has specific oversight responsibility for the agency's investment portfolio and its recommendations may be referred to the Administrative Support Committee and/or directly to the Board for further review and recommendations.]

Section 45: Audit Review Committee

45.1 Purpose

The primary responsibility for conducting the agency's financial reporting and internal controls rests with senior operating management, as generally overseen by the agency's Board of Directors. The principal purpose of the Audit Review Committee which functions as a subcommittee of the Administrative Support Committee, is to advise and assist the Administrative Support Committee and the Board in fulfilling this responsibility by providing oversight of the agency's audit functions (external and internal), as well as other investigations (external and internal).

45.2 Authority

The Audit Review Committee has responsibility to assess and review the agency's fiscal needs, conditions, procedures, and problems. The Committee shall assure that all federal/agency finances and property are handled in strict accordance with federal requirements, and that no unwarranted use or abuse of such agency resources, whether property or finance, is present or likely to occur. The Audit Review Committee, as a subcommittee, shall report its findings to the full Administrative Support Committee which shall, in turn, report on the audit(s), any findings and recommendations, and measures it may have taken to the full Board.

The Audit Review Committee has authority to:

- Participate in the review and recommendation of the agency's external and internal auditor(s);
- Investigate matters brought to its attention by the chief executive officer, the chief financial officer, the independent auditors or "whistle-blowers" with regard to all books, records, documents, facilities, and personnel of the agency;
- Participate in the review and recommendation of outside counsel, auditors, investigators, or other experts in the fulfillment of its responsibilities including the authority to approve the firm's fees and other retention terms.

The Audit Review Committee shall be provided with the resources necessary to discharge its responsibilities and may delegate authority to one or more members of the Committee.

The Committee shall meet on a regular basis and call special meetings as deemed necessary in fulfilling its responsibilities described in the By-Laws of the Board of Directors [see Appendix A] and this policy.

45.3 Membership

The Audit Review Committee is a subcommittee of the Administrative Support Committee. The Chairperson of the Audit Review Committee is the Chairperson of the Board. The Audit Review Committee shall be comprised of not less than three members of the Board. Members of the Committee shall:

1. Have no relationship to the agency that may interfere with the exercise of their independence from management and the agency;
2. Be financially literate regarding the specialized matters of agency or shall acquire such financial literacy within a reasonable time period after appointment to the Committee.

Section 45: Audit Review Committee

In addition, no less than one member of the Committee shall be a financial expert possessing the following characteristics:

1. An understanding of generally accepted accounting principles applicable to the agency and financial statements;
2. The ability to assess the application of generally accepted accounting principles in connection with accounting for estimates, accruals, and reserves of the agency;
3. Experience preparing, auditing, analyzing, or evaluating financial statements of comparable complexity to those of the agency;
4. Understanding of internal controls and procedures for financial reporting; and
5. Understanding of Audit Review Committee functions.

45.4 Responsibilities

The Audit Review Committee's role is one of oversight, recognizing that the agency's management is responsible for preparing the agency's financial statements and that the external auditors are responsible for auditing those financial statements. The Committee recognizes that the agency's internal financial management team, as well as the external auditors, have more time and detailed information about the agency than do Committee members. Consequently, in discharging its oversight responsibilities, the Committee is not providing expert advice or any assurances as to the agency's financial statements or any professional certification as to the external auditor's services.

The Committee shall have certain responsibilities in the areas of financial reporting, internal control, and organizational governance.

In the areas of financial **reporting and internal control**, the Committee shall:

- Oversee the external audit process, including receiving copy of auditor engagement letters and fees, timing and coordination of audit fieldwork visits, monitoring of audit results, review of auditor's performance, and review of non-audit services provided by the external audit firm for compliance with professional independence standards;
- Be involved in the process of reviewing bids for auditing services and serve in an advisory capacity to the chief executive officer in selecting the agency's independent audit firm(s);
- Review accounting policies and recommend such policies to the Administrative Support Committee;
- Review the agency's financial statements, including year-end and interim financial statements, other reports requiring approval by the Board before submission to government agencies, and auditor opinions and management letters;
- Assist the chief executive officer, chief financial officer, and other designated finance staff in assuring the conduct of an efficient, responsible fiscal management and reporting program.
- Determine that all required tax and information return filings with Federal, state and local government agencies are current and in compliance with reporting requirements;

Section 45: Audit Review Committee

- Receive and review any other communications from the external auditors that the external auditors are required to submit to the Board or Committee under currently applicable professional auditing standards;
- Review and discuss with management the findings and recommendations communicated by the external auditor;
- Inquire about the existence and nature of significant audit adjustments proposed by the external auditors and significant estimates made by management;
- Meet privately with the external auditors to discuss the quality of management, financial, accounting, information technology and internal audit personnel, and to determine whether any restrictions have been placed by management on the scope of their external audit or if there are any other matters that should be discussed with the Committee;
- Review the letter of management representations provided to the external auditors as part of the annual audit and inquire as to whether any difficulties were encountered in obtaining the representation letter;
- Report any findings or recommendations to the Administrative Support Committee;
- Direct special investigations into significant matters brought to its attention within the scope of its duties;

In the area of organizational **governance**, the Committee may:

- Review agency policies regarding compliance with laws and regulations, ethics, employee conduct, conflicts of interest, and the investigation of misconduct or fraud;
- Review current and pending litigation or regulatory proceedings impacting organizational governance in which the agency is a party;
- Establish and monitor agency procedures for receiving and handling complaints about accounting and auditing matters;
- Review significant cases of employee or board member conflict of interest, misconduct or fraud;
- Review and approve the internal audit charter, which explains the framework for providing internal audit services to management and the Committee;
- Review management's appointment and termination of the agency's Internal Auditor;
- Review plans and budgets associated with the internal audit function to determine that audit objectives, plans, financial budgets, and schedules provide for adequate support of the Audit Review Committee's goals and objectives;
- Discuss with the Internal Auditor and the external audit firm the reliability of the agency's information technology system and any specific security measures in protecting the agency against fraud and abuse;
- Meet as necessary with the agency's general counsel to discuss legal matters that may have a significant impact on the agency.

Section 46: Board-Designated Funds

46.1 Purpose of Board-Designated Funds

The purpose of Board-Designated Funds is to establish board-approved policies to insure the financial stability of the organization and to further the mission of the organization. Board-designated funds consist of board-designated operating reserves, board-designated special purpose funds, and board-designated quasi-endowment funds. Board-designated funds are for non-operating purposes and are not available for operations without board approval.

Assets for the Board-Designated Fund accounts will come from annual campaign and contributions; unrestricted legacies, bequests, and memorials; investments or earnings on investments; recapture of undistributed allocations and initiatives; special grants; social enterprise revenues or unrelated business income; and other sources of unrestricted revenue as appropriate.

46.2 Definitions of Board-Designated Funds

Board-designated operating reserves shows the portion of available unrestricted net assets that the board has designated for use in unusual or unforeseen financial emergencies. As a general rule, building adequate board-designated operating reserves is viewed as the first priority over other non-operating board designated funds. *Board-designated special purpose funds* are the portion of unrestricted net assets for the purpose of furthering programmatic and organizational and infrastructure needs. These funds are used for strategic purposes and optimal mission accomplishment. *Board-designated quasi-endowment funds* are board-designated unrestricted net assets that function as permanent endowments. The principal of a quasi-endowment is maintained intact and only the income is spent either for general purposes or for purposes specified by the board.

46.3 Management and Reporting of Board-Designated Funds

Board-designated funds shall be accounted for separate and apart from Undesignated Operating Funds in the asset section of a balance sheet. It is not required that Board-designated funds be physically segregated in a separate bank account. Financial procedures in the Financial Policies and Procedures Manual (FPPM) shall apply to the management of board-designated funds. Board-designated funds will be invested in accordance with the guidelines in Section 29 and Appendix A of the FPPM.

The Administrative Support Committee of the Board will receive reports on Board-designated funds at its regular meetings. The chief financial officer will report the status of Board-designated funds to the Board as a part of the regular financial reports. The Administrative Support Committee will review the Board-designated policy every three years, or sooner if conditions warrant, and put forward any necessary changes for Board approval.

46.4 Operating Reserve Fund Purpose

The general purpose of the Operating Reserve Fund is to help insure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability to continuously carry out its mission. The Board-designated operating reserve fund accomplishes these objectives:

Section 46: Board-Designated Funds

- Enables the organization to sustain operations through delays in payments of committed funding and to accept reimbursable contracts and grants without jeopardizing ongoing operations;
- Provides funds to meet unfunded and unexpected organization needs; emergency and emerging needs; and deficiency in campaigns or collection experience.
- Promotes public and funder confidence in the long-term sustainability of the organization by preventing chronic cash flow crises that can diminish its reputation and force its leaders to make expensive short-term, crisis-based decisions;
- Creates an internal line of credit to manage cash flow and maintain financial flexibility.

46.5 Operating Reserve Fund Balance

The long-term goal of the Board is to attain and maintain an Operating Reserve Fund Balance that represents approximately 25% of the annual operating expenses or about three (3) months of expenses on average. Operating expenses shall be calculated based on the financial audit results of the prior fiscal year. Operating expenses from programs that draw down funds directly from federal or other sources (e.g. Head Start, Senior Services) or other exceptions will be identified and excluded from such calculations. Current or future assets and funding strategies as described in 46.1 will be identified for purpose of attaining this goal over the long-term.

Until the goal is achieved, the Board will designate annually an amount of available unrestricted net assets (less equity in capital assets) for the Operating Reserve Fund Balance. The Board shall further designate a percentage of the Operating Reserve Fund Balance as the “Approved Draw-down Amount” that may be accessed in accordance with 46.6.

Annually after receipt of the audited financial statements, the Administrative Support Committee will consider the adequacy of the designated Operating Reserve amount and percentage available for access and make recommendations to the Board for any changes as deemed necessary.

46.6 Use of the Operating Reserve Fund

The Chief Financial Officer with written authorization from the Chief Executive Officer may access up to the “Approved Draw-down Amount” (see 46.5 above) for the purposes as outlined in 46.4, as long as sufficient accounts or grants receivable are available to repay such usage within three months’ time. Such draw-down may be accessed from cash assets, liquidation of investment assets, or as a line of credit through a bank or from the investment portfolio.

Emergency draw-downs or approval to borrow any funds (directly or by internal line of credit) for greater than the available approved balance and/or for longer than 90 days shall be requested by the Chief Executive Officer from either the Board or the Executive Committee. If approved, all management and reporting requirements indicated in 46.3 shall be followed.

46.7 Management of the Operating Reserve Fund

Management procedures outlined in 46.3 shall apply to the Operating Reserve Fund. The Operating Reserve Fund will be listed separately in the net assets section of the organization’s statement of financial position as “Board-Designated Operating Reserve” and longer-term borrowings or lines of

Section 46: Board-Designated Funds

credit against the reserve will be shown as a liability—"Due to Operating Reserve" in internal financial reports.

46.8 Special Purpose Funds

Board-designated special purpose funds are the portion of unrestricted net assets to fund specific programmatic and/or organizational and infrastructure needs. *Programmatic* may include programmatic emergencies, special projects, replacement of declining programmatic revenues, unanticipated programmatic opportunities, and major program initiatives or opportunities requiring significant development or start-up costs such as affordable housing development or community development financial institution activities. *Organizational and infrastructure* may include funds for purchase of capital assets (e.g. land, buildings, equipment, furniture, software, and technology) or capital asset building and equipment maintenance and replacement.

Special-purpose funds are intended for uses other than general operations and are expected to be expended solely for special projects and purposes. Board-designated special purpose funds are not intended for use to cover payroll for permanent employees, occupancy, and other unavoidable operating expenses. Management of special purpose funds shall be in accordance with procedures outlined in 46.3 above.

46.9 Quasi-endowment Funds

Board-designated quasi-endowment funds are board-designated unrestricted net assets that function as permanent endowments. The principal of a quasi-endowment is maintained intact and only the income is spent either for general purposes or for specific purposes specified by the board. . Revenues from quasi-endowment funds may be used to fund other board-designated operating reserves or special purpose funds or self-sustaining financial support for a specific project. The Board should designate the specific amount of the principal of a quasi-endowment and the general or specific purposes for which revenue in excess of principal should be used. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Management of quasi-endowment funds shall be in accordance with procedures outlined in 46.3 above.

Appendix

APPENDIX
Investment PolicyA

Appendix A: Investment Policy

Audubon Area Community Services, Inc. *Investment Policy* (As Amended and Restated)

Effective April 21, 2009

Audubon Area Community Services, Inc. (hereinafter called AACS) at its regularly scheduled meeting of April 21, 2009, does hereby adopt the following Investment Policy, as amended and restated (hereafter the “Policy”) and strategy with the respect of its corporate funds and fiscal assets.

GENERAL POLICY: It is in the best interest of AACS to safeguard its fiscal assets while securing a favorable return on all investments and remaining sufficiently liquid in all such investment strategies. Furthermore, a written policy for the placement and supervision of fiscal assets held by AACS is hereby promulgated.

SCOPE: This Policy applies to all financial assets held directly by AACS. These financial assets are accounted for in the AACS annual budget(s) and include monies in all funds so identified by agency or programmatic budgets adopted for any given fiscal year

Section 1: INVESTMENT AUTHORITY RECOGNIZED BY AACS

- A. The general investment philosophy of AACS is to consider investment options relative to the fiscal assets of AACS selected in order to (i) to provide a wide range of investment opportunities in various asset classes so as to allow for diversification and cover a wide risk/return spectrum; (ii) maximize returns within reasonable and prudent levels of risk; (iii) provide returns comparable to returns for similar investment options; (iv) insure liquidity for cash flow process; (v) manage the diversification of investment assets; and (vi) control administrative and management costs with respect to such investments, all as implemented and monitored by the Investment/Oversight Committee.
- B. The corporate funds and fiscal assets of AACS subject to this Investment Policy generally consist of AACS’s non-public reserves (including any securities received from KACA, in the Anthem Demutualization process), private gifts and any non-restricted earned surplus, but excluding operating funds, public grants and/or donor restricted contributions for specific services or purposes.
- C. Management responsibility for investment of AACS funds and fiscal assets is hereby granted to both the chief executive officer and AACS Investments/Oversight Committee. Both must mutually agree on the placement and investment strategy prior to the commitment of agency funds. Any disagreement as the placement or investment strategy shall otherwise be determined by the AACS Board of Directors.

Appendix A: Investment Policy

- D. The AACS chief executive officer will be solely responsible for the actual investment transactions. The AACS chief executive officer shall establish controls to regulate the activities of subordinate employees and to prevent against losses of public funds arising from fraud, employee error, and misrepresentation by third- parties, unanticipated changes in financial markets or imprudent actions by officers and employees.
- E. The AACS chief executive officer may, and at the direction of the AACS Board shall, invest and reinvest agency money subject to their control and jurisdiction as permitted by this Policy.
- F. The AACS chief executive officer and the Investment/Oversight Committee shall exercise front-line stewardship over the equity securities portfolio owned by the agency and the executive director may, with the concurrence of the AACS Investment/Oversight Committee, diversify the portfolio so as to maximize its integrity, value, and protection.
- G. AACS upon advice of its independent general counsel, has determined that its investment activities and this Investment Policy are not subject to the investment restrictions of KRS 66.480, for the reasons and conclusions set forth in such counsel's April 16, 2009, Memorandum which is attached hereto and made a part hereof as Appendix A.

Section 2: AUTHORIZED INVESTMENTS AND SAFEGUARDS RECOGNIZED BY THE AACS

- A. Funds existing as "tree balance" in any particular fund account which are not required to meet the current expenses or debt obligations of that particular fund in any quarter of the current fiscal year *may* be invested based on prudent cash-flow projections.
- B. Funds and fiscal assets of AACS may be invested in any of the following:
 - (1) Obligations of the United States and its agencies and instrumentalities, including obligations subject to repurchase agreements, providing that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. The investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky.
 - (2) Obligations and contracts for future delivery or purchased of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:
 - (a) United States Treasury;
 - (b) Export-Import Bank of the United States;
 - (c) Farmers Home Administration;
 - (d) Government National Mortgage Corporation; and

Appendix A: Investment Policy

- (3) Obligations of any corporation of the United States government, including but not limited to:
 - (a) Federal Home Loan Mortgage Corporation;
 - (b) Federal Farm Credit Bank;
 - (c) Bank for Cooperatives;
 - (d) Federal Intermediate Credit Bank;
 - (e) Federal Land Bank;
 - (f) Federal Home Loan Banks
 - (g) Federal National Mortgage Association and
 - (h) Tennessee Valley Authority
 - (4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings-and-loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity.
 - (5) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and Instrumentalities.
 - (6) Securities issued by a political subdivision of the Commonwealth or any instrumentality or agency thereof and rated in one (1) of the three (3) highest categories by a nationally recognized rating agency.
 - (7) Equity securities (stocks) of profit corporations, pooled or common funds available for investment, including shares or interests in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts or similar organizations in which funds are commingled and investment determinations (collectively, the “equity investments”) are made by persons other than AACS; provided, however, that any equity investments under this paragraph (7) shall be subject to part D. below.
- C. The investment authority outlined above shall be subject to the following conditions:
- (1) Both the chief executive officer and the members of the Investment/Oversight Committee shall maintain such personal bonds as necessary to safeguard the investments of AACS. Any other official or employee receiving or in custody of AACS funds shall give bond as required by the executive director.
 - (2) Applicable statutory sections pertinent to indebtedness of AACS.
 - (3) No investment shall be purchased for AACS on a margin basis or through the use of similar leveraging technique.

Appendix A: Investment Policy

- D. AACS does, in fact, own such securities in its universe of investments; therefore, the AACS Board through this Policy also recognizes equity stocks and mutual funds as being within their purview and applicability. On behalf of the Board and AACS, the Investment/Oversight Committee shall be responsible for the precise makeup, management, and stewardship of AACS' authorized equity investments, subject to:
- (1) Prudent action based on the best available advice; the Investment/Oversight Committee may as it deems necessary, and at agency expense, secure the services of a qualified and licensed investment broker or financial advisor.
 - (2) If the AACS, Inc. equity investments pertain to shares of mutual funds, the Investment/Oversight Committee shall generally adhere to the following standards:
 - (a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Act of 1940, as amended;
 - (b) The management company of the investment company shall have been in operation for at least five (5) years, and;
 - (c) The AACS-owned securities in the mutual fund shall be proven, sound securities highly-regarded in the industry; and
 - (d) To the extent that the mutual fund equity investments may in part or in whole relate to some federal or state "interest," i.e, either governmental entity has some claim to the investment, then all of the securities in the mutual fund shall only be eligible investments enumerated in Section 2, part B, paragraphs (2) through(7).
 - (3) The AACS, Inc. Investment/Advisory Committee shall not purchase any investment, nor order the AACS chief executive officer to do so, on a margin basis or through the use of any similar leveraging technique.

Section 3. WRITTEN STANDARDS & PROCEDURES FOR MONITORING CONTROLS, DEPOSITS OR RETENTION OF INVESTMENTS AND COLLATERAL

- A. The AACS chief executive officer (or the CFO in consultation with and authorization by the chief executive officer), with approval of the AACS Board of Directors, is the only person authorized to sign any written agreements under the terms of this Resolution.
- B. Both the Investment/Oversight Committee and chief executive officer shall acknowledge each investment under the provisions of this Resolution by so attesting in an Investment Ledger.
- C. Notwithstanding the provisions of Section 1, part B above, and subject to the provisions of Section 2, part D above, prudent measures for safeguarding AACS funds may be promulgated by order of the executive director when not in conflict to this Policy but are necessary for clarity or adjusting cash reserves caused by budget amendment(s).

Appendix A: Investment Policy

- D. Prudent measures for safeguarding AACS equity investments may, when not in conflict to this Policy, be promulgated by order of the executive director with the concurrence of the Investment/Oversight Committee.

Section 4: AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. The institutions in which deposits or investments, excluding KARP (Kentucky Advance Revenue Program) monies, will be physically located are: BB&T, Owensboro, Kentucky, and such other financial institutions as may prove advantageous to the agency, so long as any additional financial institutions so utilized are expeditiously reported to the AACS Board of Directors.
- B. All investment securities, excluding KARP (Kentucky Advance Revenue Program) monies, will be retained on the agency's behalf at the financial institutions listed above.
- C. KARP monies may be invested at the financial institutions listed above or through a KARP investment pool through the Kentucky Association of Counties.
- D. The AACS hereby adopts the following written standards for considering the qualifications of investment agents authorized to transact business with the AACS:
- (1) Proof of National Association of Security Dealers certification and current license in Kentucky;
 - (2) Investment advisor's experience;
 - (3) The capitalization of the investment advisor;
 - (4) Audited financial statements;
 - (5) Regulatory reports on financial condition;
 - (6) Such factors as deemed appropriate by the AACS Board under a given circumstance peculiar to an investment.
- E. AACS, its chief executive officer and Investment/Oversight Committee, shall utilize (and/or employ) only qualified and duly licensed independent investment advisors, equities dealers and institutions, investment counsel or managers, banks and/or trust companies.

Section 5: COLLATERAL REQUIREMENTS (for Federal Funds)

- A. Investments or deposits that would exceed an aggregate total of one hundred thousand (\$100,000) dollars in the name of AACS Board of Directors at any institution, including any and all branch locations, must be guaranteed by the institution's additional pledge of security. The collateralization level shall *comply with pertinent federal and grantor requirements*.

Appendix A: Investment Policy

- B. Collateral shall always be held by an independent third-party custodian with whom the financial institution has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to AACS and retained by the agency. The right of collateral substitution may be granted by special order of the AACS.

Section 6: INVESTMENT REPORTING AND AUDIT

- A. In addition to normal reporting duties of the Investment/Oversight Committee, a quarterly balance sheet must be presented at the next scheduled regular meeting of the AACS Board of Directors if an investment transaction preferred to under this Policy has occurred. This report must then reconcile against claims outstanding where such funds involve the cash reserves, investment, or reinvestment of any fund balance given by the current fiscal year budget.
- B. The Investment/Oversight Committee shall present a quarterly report to the AACS Board of Directors, which shows all investments by their fund account, interest earned, maturity date, and location of investment or financial instrument.
- C. The AACS chief executive officer must consider all investments, cash reserves, and investment strategies when preparing the budget and present such information to the AACS Board of Directors prior to adoption of the budget.
- D. Audits by the agency's independent auditor should be considered as sufficient in terms of recommending additional measures to further enhance this Policy.
- E. AACS may call for a special audit at any time with regard to any fund or monies in the custody of agency officer and payable or owing to AACS.
- F. The AACS chief executive officer and Investment/Oversight Committee shall at least quarterly report to the AACS Board of Directors their equity investments activity and the status of the agency's equity investments.

Section 7: DIVERSIFICATION OF INVESTMENTS

- A. The AACS recognizes that a level of risk is inherent in any investment transaction. Therefore, the AACS should limit the placement, terms of investment, type of financial instrument, and other such means that will reduce the associated risk.
- B. To the extent possible, the AACS will attempt to match its investments with anticipated cash-flow requirements and projected with the annual budget.

Appendix A: Investment Policy

- C. With respect to its equity security investments, the AACS chief executive officer and the Investment/Oversight Committee shall be prudent stewards over the agency's equity investments portfolio and may, together and subject to all restrictions heretofore set regarding prudent action and professional consultation, diversify the portfolio so as to maximize its integrity, value, and protection; any and all changes reported to the AACS Board at its next regular session.
- D. Further, with respect to such equity security investments, the AACS chief executive officer and the Investment/Oversight Committee will work with AACS's investment manager, from time to time, to develop appropriate asset management policies, objectives and strategies within AACS's equity investments parameters, substantially in the format and form as the Investment Policy Statement (as proposed by BB&T) as attached hereto and made a hereof as Appendix B.

Section 8: ADOPTION OF POLICY

- A. AACS hereby adopts this Policy, as amended and restated effective April 21, 2009, and shall review all investments held by AACS which have not matured and are currently exempt but subject to this Policy on maturity.
- B. This Policy shall be reviewed by the authorized officials annually prior to submitting the budget for the next fiscal year and any amendments to this Policy shall be made by order of AACS Board of Directors with the adoption of its budgets.
- C. This Policy may be amended by order of the AACS Board of Directors at any regular meeting of the AACS Board of Directors where a more favorable investment strategy or placement not provided for herein would result in a greater benefit or security of public funds.

Reid Haire,
Chairperson,
AACS Board of Directors

ATTEST:

Daisy B. James
Board Secretary

DATE: April 21, 2009