



**G A D S H I L L  
C E N T E R**

# ACCOUNTING POLICIES & PROCEDURES MANUAL

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## **OBJECTIVES**

This manual is meant to act as a tool that outlines the basic accounting policies and procedures for Gads Hill Center (the “Agency”). Employees should reference this manual when performing their daily duties and responsibilities. This manual will also be useful for board members to understand and review the current controls in place at the Agency.

This manual hopes to ensure the following objectives:

- Accuracy of the financial statements
- Proper authorization of all transactions
- Proper safeguarding of the agency’s assets
- Basic control model to allow for effective and efficient operations

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## SECTION I

### ORGANIZATIONAL STRUCTURE

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#### **The Role of the Board of Directors**

Gads Hill Center is governed by its Board of Directors, which is responsible for the oversight of the Organization by:

1. Planning for the future
2. Establishing broad policies, including financial and personnel policies and procedures
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 Organization'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 the requirements of all contracts and grants
11. Authorizing establishment of all bank accounts and designation of all check signers.

#### **Finance and Audit Committee Responsibilities**

The Finance and Audit Committee is responsible for direction and oversight regarding the overall financial management of Gads Hill Center. Functions of the Finance and Audit Committee include:

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

The review of the Organization's financial statements shall not be limited to the Finance and Audit Committee, but shall involve the entire Board of Directors.

The Finance and Audit Committee hires an independent CPA firm and communicates directly with the CPA firm for an annual audit, as described in the Organization's by-laws. The Finance and Audit 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.

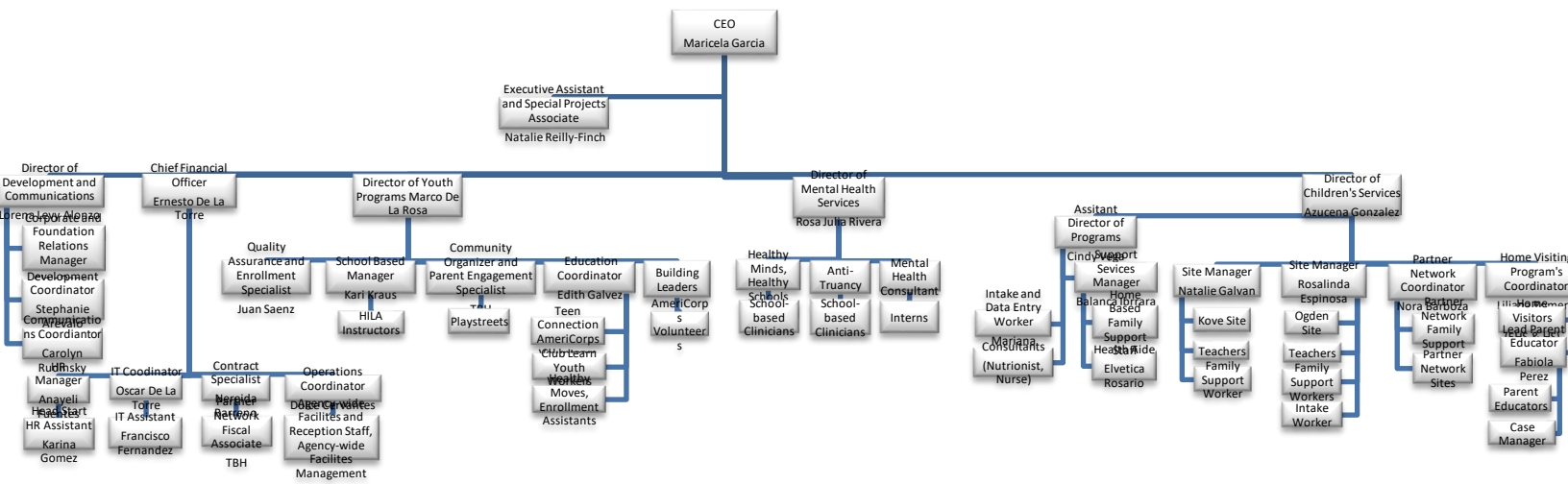
The Finance and Audit Committee also serves as the primary point of contact for any employee who suspects that fraud has been committed against the Organization or by one of its employees or board members.

The Finance and Audit Committee's role in the annual audit is more fully explained in the section of this manual covering the annual audit.

#### *Conflict with Organizational Documents*

In the event of any conflict between these Policies and Procedures, whether as originally established or as later amended, and the Organization's Articles of Incorporation and Bylaws, as in effect at the time of such conflict, the latter shall prevail.

**Organization Chart:**  
Gads Hill Center organization chart follows



## **ACCOUNTING DEPARTMENT OVERVIEW**

### **Organization**

The accounting department consists of three (3) staff members who manage and process financial information for Gads Hill Center. The following positions comprise the accounting department:

- Chief Financial Officer
- Contract Specialist
- Head Start Partner Finance Assistant

Other officers and employees of Gads Hill Center who have financial responsibilities are as follows:

- Chief Executive Officer
- Program Directors
- Treasurer – Board level
- Finance and Audit Committee – Board level
- Executive Committee – Board level
- Full Board of Directors

### **Responsibilities**

The primary responsibilities of the accounting department consist of:

- General ledger
- Budgeting
- Cash and investment management
- Asset management
- Grants and contracts administration
- Purchasing
- Account 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 II

### BUSINESS CONDUCT

#### **Practice of Ethical Behavior**

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The effectiveness and reputation of Gads Hill Center 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 Gads Hill Center policies?
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 Organization or publicly?
6. Am I sure that my action meets my personal code of ethics and behavior?
7. Would I feel comfortable defending my actions on the news?

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

Each director, manager and coordinator is responsible for the ethical business behavior of her/his subordinates. Directors and coordinators 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, as well as their personal sense of right and wrong. We Encourage employees, when in doubt, to consult with their supervisors or even other employees about their conduct

#### **Compliance with Laws, Regulations, and Organization Policies**

Gads Hill Center 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 Gads Hill Center policy or engagement in unscrupulous dealings.

Employees may 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.



# **CONFLICTS OF INTEREST**

## **Introduction**

In the course of business, situations may arise in which an Organization 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.

All directors and employees have an obligation to:

1. Avoid conflicts of interest, or the appearance of conflicts, between their personal interests and those of the Organization in dealing with outside entities or individuals,
2. Disclose all real and apparent conflicts of interest to the Board of Directors
3. Refrain from participation in any decision on any matter that involves a real conflict of interest or the appearance of a conflict, unless disclosed to and approved in advance by the board.

## **What Constitutes a Conflict of Interest?**

A conflict of interest arises when a director or employee involved in making a decision is in the position to benefit, directly or indirectly, from his/her dealings with the Organization or person conducting business with the Organization. For example, a potential conflict of interest exists when the director or employee, or his/her immediate family owns or receives more than 1% of the benefiting business or profits.

Examples of conflicts of interest include, but are not limited to, situations in which a director or employee:

1. Negotiates or approves a contract, purchase, or lease on behalf of the Organization and has a direct or indirect interest in, or receives any direct or indirect personal benefit from, the entity or individual providing the goods or services;
2. Negotiates or approves a contract, sale, or lease on behalf of the Organization and has a direct or indirect interest in, or receives any direct or indirect personal benefit from, the entity or individual receiving the goods or services;
3. Employs or approves the employment of, or supervises a person who is related by blood or marriage to him/her;
4. Sells products or services in competition with the Organization;
5. Uses the Organization's facilities, information, other assets, employees, or other resources for personal gain;
6. Receives a substantial gift (valued at more than \$25.00) from a vendor, if the director or employee is responsible for initiating or approving purchases from that vendor.

## **Disclosure Requirements**

A director or employee who believes that he/she may have or be perceived as having a conflict of interest in a discussion or decision must disclose that conflict to the group making the decision. Most concerns about conflicts of interest may be resolved and appropriately addressed through prompt and complete disclosure.

Therefore, Gads Hill Center requires the following:

1. On an annual basis, all members of the Board of Directors, the Chief Executive Officer, members of senior management, and employees with purchasing and/or hiring responsibilities or authority shall inform, in writing, the Chief Executive Officer and the chair of the Finance and Audit Committee, of all actual, potential, or apparent conflicts.
2. Prior to the preparation of the disclosure statements, the accounting department shall distribute a list of all vendors with whom the Organization has transacted business at any time during the preceding year, along with a copy of the disclosure statement;
3. The Chief Executive Officer shall review all forms completed by employees, and the Finance and Audit Committee shall review all forms completed by directors and the Chief Executive Officer, and determine appropriate resolution in accordance with the next section of this policy.
4. If a conflict arises during the year, the employee or board member will immediately notify the Chief Executive Officer who will determine appropriate resolution.

## **Resolution of Conflicts of Interest**

All real or apparent conflicts of interest shall be disclosed to the Finance and Audit Committee and the Chief Executive Officer. Conflicts shall be resolved as follows:

- The Finance and Audit Committee shall be responsible for making all decisions concerning resolutions of conflicts involving directors, the Chief Executive Officer, and other members of senior management.
- The chair of the committee shall be responsible for making all decisions concerning resolutions of conflicts involving Finance and Audit Committee members.
- The chair of the board shall be responsible for making all decisions concerning resolutions of the conflict involving the chair of the Finance and Audit Committee.
- The Chief Executive Officer shall be responsible for making all decisions concerning resolutions of conflicts involving employees below the senior management level, subject to the approval of the Finance and Audit Committee.

An employee or director may appeal the decision that a conflict (or appearance of conflict) exists as follows:

- An appeal must be directed to the chairman of the board.
- Appeals must be made within thirty (30) days of the initial determination.
- Resolution of the appeal shall be made by vote of 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.

### **Disciplinary Action for Violations of This Policy**

Failure to comply with the standards contained in this policy will result in disciplinary action that may include termination, referral for criminal prosecution, and reimbursement to the Organization or to the government, for any loss or damage resulting from the failure. As with all matters involving disciplinary action, principles of fairness will apply. Any employee charged with a violation of this policy will be afforded an opportunity to explain her/his actions before disciplinary action is taken.

Disciplinary action will be taken:

1. Against any employee who authorizes or participates directly or indirectly in actions that are a violation of this policy.
2. Against any employee who has deliberately failed to report a violation or deliberately withheld relevant and material information concerning a violation of this policy.
3. Against any director, manager or coordinator who attempts to retaliate, directly or indirectly, or encourages others to do so, against any employee who reports a violation of this policy.

A board member who violates this policy will be removed from the board

## **SECURITY**

### **Accounting Department**

Gads Hill Center keeps sensitive accounting and human resources files in a room that is locked nightly. Keys are issued to the Chief Financial Officer, Contract Specialist, Human Resource Manager.

Gads Hill Center corporate seals and blank check stock shall be stored in a cabinet in the Accounting Department. This cabinet will be locked with a key that is in the possession of the Chief Financial Officer and the Contract Specialist.

Petty cash is stored in a locked cash box kept in a Safe Box. The Contract Specialist and the Chief Financial Officer will be the only employees with keys to the petty cash drawer.

### **Access to Electronically Stored Accounting Data**

Gads Hill Center utilizes passwords to restrict access to accounting software and data. Only duly authorized accounting 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, no less frequently than every one hundred eighty (180) days. Administration of passwords shall be performed by a responsible individual independent of programming functions.

Each password enables a user to gain access to only those software and data files necessary for each employee's required duties.

### **Storage of Back-Up Files**

Gads Hill Center maintains back-up copies of electronic data files off-site. Access to back-up files shall be limited to individuals authorized by management. Multiple copies of backup media are recommended so as to not overwrite the most recent backup.

The Organization shall regularly test its capability to restore from backup media.

### **Storage of Sensitive Data**

In addition to accounting and financial data stored in the Accounting Department, other sensitive data, such as social security numbers of employees or clients, etc. may be stored in areas other than the accounting department, such as in the Centers. Therefore, the Organization shall:

1. Minimize the storage of sensitive data outside the Accounting Department by shredding documents with such data or deleting the sensitive data from documents that are stored outside the Accounting Department whenever possible; and 2. Require that all sensitive data that is stored in areas other than the Accounting Department be secured in locked filing cabinets.

Further, the Organization shall restrict access to sensitive data to Organization employees only (no temporary workers, contractors, or volunteers) and only to employees with a legitimate need for such access. The Organization shall also require employees to secure print jobs which contain sensitive information immediately upon printing.

### **Destruction of Consumer Information**

As stated earlier, all sensitive data must be securely stored and shredded when no longer needed. Gads Hill Center shall also shred all consumer information obtained by the Organization for any reason. Shredding shall 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 (see the "Fiscal Management" policies section of this manual).

**General Office Security** The finance office shall be locked at all times and visitors must be admitted by a Gads Hill employee.

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## SECTION III

### GENERAL LEDGER AND CHART OF ACCOUNTS

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#### **General Ledger**

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.

#### **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.

Gads Hill Center chart of accounts is composed of six types of accounts:

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

#### **Control of Chart of Accounts**

The Chief Financial Officer shall monitor and control the chart of accounts, including all account maintenance, such as additions and deletions. Any additions or deletions of accounts shall be approved by the Chief Financial Officer, who shall ensure that the chart of accounts is consistent with the organizational structure of Gads Hill Center and meets the needs of each department.

#### **Account Definitions**

##### Category Definition

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

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.

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

**Liabilities**-Liabilities are probable future sacrifices of economic benefits arising from present obligations of the Organization 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.

**Net Assets**-Net Assets are the difference between total assets and total liabilities.

**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 organization's ongoing major or central operations. Revenues include grants received from government agencies, private foundations and corporations, and contributions received from donors.

**Expenses**-Expenses are outflows or other activities using assets, or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute Gads Hill Center's ongoing major or central operations.

### **Gains and Losses**

Gains are increases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Organization except those that result from revenues.

Losses are decreases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Organization except those that result from expenses.

Gains or losses occur when Gads Hill Center sells a fixed asset or writes off as worthless a fixed asset with remaining book value.

**Fiscal Year of Organization**

Gads Hill Center shall operate on a fiscal year that begins on July 1 and ends on June 30. Any changes to the fiscal year of the Organization must be ratified by resolution of Gads Hill Center Board of Directors and approved by the Internal Revenue Service.

**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 noncash transactions (e.g. in-kind)
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 fixed 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.

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## SECTION IV

### REVENUE AND CASH RECEIPTS

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#### **Revenue Recognition Policies**

Gads Hill Center 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 units-of-service (e.g. number of days attended and number of meals served).
  2. **In-Kind Contributions** – Recognized as income when received (See below the section titled “Cost Sharing and Matching”).
  3. **Program Income** – Includes refunds and other applicable credits, and is recognized as a reduction in expenditures in the period in which it is received.
  4. **Nongovernmental Cash Contributions** – Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income).
  5. **Program Related Fees** – Monthly accrued based on assessed fee by intake department on transaction form. The fees are set for each Child in program.
- 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.

#### **Definitions**

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

**Contribution** – An unconditional transfer of cash or other assets to the Organization, or a settlement or cancellation of the Organization's liabilities, in a voluntary nonreciprocal transfer by another entity or individual.

**Condition** – A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to the Organization or releases the promisor from its obligation to transfer its assets.

**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 Organization, 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.

**Nonreciprocal Transfer** – A transaction in which an entity incurs a liability or transfers assets to Gads Hill Center without directly receiving value in exchange.

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

**Exchange Transaction** – A reciprocal transaction in which Gads Hill Center and another entity each receives and transfers to the other something of approximately equal value.



## CASH RECEIPTS

1. All checks and cash receipts received through the mail or by Gads Hill Center personnel are restrictively endorsed immediately by the assigned non finance department staff person and recorded in the cash receipts register listing the date received, payer check number, amount received, and any restrictions.
2. The assigned staff person will make one copy of each cash receipt. Receipts are immediately delivered to the Finance department for deposit. He or she delivers one copy of the report to the Chief Executive Officer (or in the absence of the Chief Executive Officer, a Senior Staff Member) for review, correction and approval. The copy of the approved contribution receipt along with copies of any supporting documentation are then sent to the Development Office for their review and then sent to the Finance Office.
3. The Chief Financial Officer reviews the contribution receipt package and then gives it to the Contract Specialist. The Contract Specialist will prepare the bank deposit daily, attaching a copy of the deposit slip and deposit receipt to the cash receipts copies, and forward the entire package to the Chief Financial Officer for approval before it is deposited. On receipt of the validated deposit slip, it is attached to the related cash receipts journal entry package (with check copies, approved contribution receipt form, letters, etc.) and coded according to the chart of accounts.
4. United Way Monthly Allocation wire transfer received at the beginning of each month is entered into the general ledger by the Chief Financial Officer. Monies sent to the operating account by the City of Chicago Department of Family Support Services for payment of any voucher are posted to the general ledger by the Chief Financial Officer when the validated deposit slip is received.
5. Collections of currency are made at various times of the month. These monies (i.e. fees for services, rental fees, and program fund-raisers) are to be kept in the Finance Office as received and verified until the date of deposit. Cash receipts are deposited into the operating account intact and on a timely basis. Monies submitted to the Finance Office must be accompanied by a proper listing identifying the sources of the receipts and the approval of the appropriate Senior Staff Member.
6. Donated Goods: New goods are valued at approximate retail/wholesale values, if not valued by the donor. The Development department will keep an accounting of all items donated including the value placed on the goods by the donor. The donor maintains responsibility for fair valuation of goods.
7. Donated Services: Are valued at fair market value of services contributed. The Development Office will keep an accounting of all donated services, including amount of time donated, activity performed, and any professional statements associated with the particular service. A dollar amount will be assigned to each hour of service based on prevailing wages where appropriate. In some cases, the donor will be responsible to report fair valuation of services.
8. Cash Contributions: The Development office will issue a letter of thanks to the donor indicating the amount of the contribution and any restrictions of the donor. The Development Assistant will keep a copy of the thank you letter to the donor.

## **BILLING/INVOICING POLICIES**

### **Overview;**

The Organization's primary sources of revenue are:

- Reimbursement grants – billed monthly, or as funders require, based on allowed, incurred or paid expenses
- Fee-for-service contracts – billed monthly on units of service provided (e.g. number of days a child attends class)
- Parent fees – Invoicing parents and collected by the Receptionist from each site and submitted to finance office

### **Responsibilities for Billing and Collection**

Gads Hill Center Accounting 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)

### **Billing and Financial Reporting**

Gads Hill Center strives to provide management, staff and funding sources with timely and accurate financial reports applicable to awards. These reports include monthly and cumulative expenditures, a project budget, and a balance remaining column.

Gads Hill Center shall prepare and submit financial reports as specified by the financial reporting requirements of each grant or contract award document. Preparation of these reports shall be the responsibility of Chief Financial Officer, subject to review and approval by the Chief Executive Officer.

The following policies shall apply to the preparation and submission of billings to government agencies under awards made to Gads Hill Center:

1. The Organization shall request reimbursement after expenditures have been incurred, unless an award specifies another method. Reimbursement may also be requested after expenditures have been paid (cash basis) if required by the award.
2. 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.
3. Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.
4. All financial reports required by each award will be prepared and filed on a timely basis. To the extent Gads Hill Center year-end audit results in adjustments to amounts previously reported, revised reports shall be prepared and filed in accordance with the terms of each award.

### **Reimbursement Request Procedures**

The following documents are required to be assembled and sent to the Head Start and Early Head Start grantor each month:

- Original Cover/Invoice
- Expense Report spreadsheet
- Supplemental Report
- shall contain all invoices paid, payroll journals, bank reconciliation for prior month, etc..

These documents and the request for reimbursement shall be submitted so as to reach the grantor by the 10<sup>th</sup> working day of the following month.

### **Billing Records:**

Gads Hill Center 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 Gads Hill Center by the Contract Specialist. If an award authorizes the payment of cash advances to Gads Hill Center, the Chief Financial Officer may require that a request for such an advance be made. Upon receipt of a cash advance, Gads Hill Center 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.

### **Accounts Receivable Entry Policies;**

The Contract Specialist is responsible for all entries in the Accounts Receivable ledger. The CFO or the Executive Director reviews and approves all receivable adjustments.

### **Classification of Income and Net Assets**

All income received by Gads Hill Center shall be classified as "unrestricted," with the exception of the following:

1. Grants and other awards received from government agencies or other grantors that are classified as temporarily restricted.
2. Special endowments received from donors requesting that these funds be permanently restricted for specific purposes.

From time to time, Gads Hill Center may receive other forms of contribution income subject to requirements that the Organization utilize the funds for a specific purpose or within a time period specified by the donor of the funds. When this form of contribution income is received, it shall be classified as Temporarily Restricted income.

As with all Temporarily Restricted net assets, 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), Gads Hill Center will reclassify the related net assets from "Temporarily Restricted" to "Unrestricted" in its Statement of Financial Position and reflect this reclassification as an activity in its Statement of Activities.

From time-to-time, the Gads Hill Center Board of Directors may determine that it is appropriate to set funds aside for specific projects. Such funds shall be classified as "unrestricted," labeled "Board-Designated," and reported as a separate component of unrestricted net assets.

## **ACCOUNTS RECEIVABLE**

An aged trial balance of accounts receivable should be maintained and provided to the Chief Financial Officer on a monthly basis. This listing should include, at a minimum, who the receivable is from, the date of the last payment, the total balance, and aged balance (shown in different aging buckets such as current, over 30, over 60, over 90 and over 120 days).

An estimate shall be made of the uncollectible accounts. A contra asset account should be created and presented on the financial statements to show a net receivable balance. If an account is no longer deemed collectible, the account shall be written-off and be approved by the Chief Executive Officer.

Monthly voucher billing: Among the government programs requiring completion of reimbursement voucher summaries are the various Head Start programs, Illinois State Board of Education, Illinois Department of Human Services, CPS-State PRE-K Program, Action for Children and FSS in Childcare services. The vouchers must be completed in a timely manner and delivered to the appropriate governmental agency for payment. Vouchers are recorded as receivables in general ledger.

## **Grants Receivable Management**

Gads Hill Center shall record grants receivable and income as follows:

1. If Gads Hill Center receives an advance. The Chief Financial Officer records the advance as deferred revenue and recognizes it as revenue based on grant requirement.
2. Each month, the Contract Specialist records the amount to be reimbursed for grants receivable and grant revenue.

See the section above on billing procedures for details on reimbursement requests.

## Cost Sharing and Matching (In-Kind)

Title 45 CFR part 75.306

Gads Hill Center shall value 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 agency regulations identify specific values to be used.

Gads Hill Center shall claim contributions as meeting a cost sharing or matching requirement of a Federal-funded award only if all of the following criteria are met:

1. They are verifiable from Gads Hill Center 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 not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
5. They are provided for in the approved budget when required by the awarding agency.
6. In the case of donated space, or donated use of space, the space is subject to an independent appraisal to establish its value.

### **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

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

#### ***Cash***

- Gads Hill Center 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.

#### ***Space, Buildings, Land and Equipment***

##### ***Buildings and Land***

If the purpose of the contribution is to assist the Organization 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 at matching, unless the awarding agency has approved using the full value as match.

Equipment, buildings and land shall be valued at their fair market values 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 not to exceed fair market value

***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.

Examples of contributed services received and recorded as income and expense by Gads Hill Center include

- Classroom assistance including reading to children, cleaning, setting up bulletin boards, etc.
- Clerical office assistance
- Child services such as dental check-ups

Volunteer services will be valued at rates consistent established by the Head Start and Early Head Start grantee.

Gads Hill Center 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 sign-in sheets will be delivered to the Accounting Department monthly so they can be tallied, valued, and recorded as in-kind in the accounting records.

***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 itself.

### BANK ACCOUNTS

All bank accounts are to be approved by the Finance Committee. Each bank account is to have a specific G/L account number assigned to the bank account.

Listings of authorized check signers are to be maintained by the Chief Executive Officer, Chief Financial Officer, Treasurer, and the bank. The following table outlines who is authorized to sign checks:

\$0 - \$20,000	Two Signers of the Following :( Chief Executive Officer, Director of Children's Services, Director of Youth Programs, Director of Mental Health Services, Corporate and Foundation Relations Manager.)
\$20,001 – above	Two Signers (One of above and Authorized Board Member required to sign)

Bank and wire transfers will be subject to the same signer requirements.

## Bank Reconciliations

The purpose of bank reconciliation is to reconcile the differences between the general ledger balance and the bank statement balance. The Chief Financial Officer should approve each reconciliation. Bank reconciliations should be completed within 15 days of the receipt of the bank statement.

The procedures involved the preparation of a monthly reconciliation are as follows:

1. Establish the accuracy of the bank statement.
  - a. Ensure that the beginning balance in the bank statement agrees to the ending balance of the prior month's bank statement.
  - b. Agree each deposit in the bank statement to the duplicate deposit slip receipt from the bank.
  - c. Agree each paid check returned by the bank to the bank statement listing of checks.
  - d. Agree debit and credit memos per the bank statement to the memos mailed by the bank.
2. Determine the reconciling items between book and bank balances.
  - a. Outstanding Checks – Checks recorded as cash disbursements per the books but not presented to and cashed by the bank as of the bank statement date.
    - i. Arrange the paid checks returned from the bank in numerical order.
    - ii. Agree each paid check with the related cash disbursements entry and the list of outstanding checks for the previous month. Check off each entry in the cash disbursements journal to indicate that the check has been cashed by the proper payee for the correct amount and returned by the bank.
    - iii. The outstanding checks represent the total of unmarked disbursements in step (ii.) above.
    - iv. The outstanding checks that have not been cash over 6 months need to follow-up with payee and documented the results.
  - b. Deposits in Transit – Deposits recorded as cash receipts per the books but not presented to the bank and available for use as of the statement date.
    - i. Agree each deposit entry per the bank statement with the deposits recorded in the cash receipts journal. Check off the deposits per the cash receipts log, which have been recorded as deposits by the bank.
    - ii. Any unchecked items in the cash receipts log represent deposits in transit.



c. Other Reconciling Items

- i. Examine the bank statement for additional debit and credit items not recorded in the company's books such as a) checks returned for insufficient funds (which should be deducted from the cash book balance and added back to receivables, b) bank charges, and c) fund transfers.
- ii. Examine the Agency's books for any open/unmarked items, e.g. checks recorded but still in the Agency's custody. Held checks should be recorded as payables until the checks are released.

## Petty Cash

Petty cash is a revolving fund maintained at a constant (impress) amount to cover the local emergency needs and small cash expenditures such as postage, minor office supplies, travel advances, etc. The general ledger petty cash account balance should be the amount of cash that was originally advanced to the custodian of the petty cash account. Only when the amount originally advanced is increased or decreased should the general ledger balance change.

Petty cash should be maintained at an impress balance of \$ 500.

The Contract Specialist will act as a custodian of the petty Cash.

Petty cash disbursements are limited to \$60.00 in amount.

Three types of signatures are required for petty cash request:

1. Those individuals receiving the funds;
2. The coordinator of the Program; and
3. One member of the Leadership team.

No one individual may perform two of these functions, except that the Chief Executive Officer may authorize expenditures and sign checks.

The person authorizing an expenditure is certifying that a) the expenditure falls within the approved budget for that program, and b) that the expenditure is appropriate.

The petty cash custodian signing the reimbursement request is certifying that the listed amounts have been disbursed for the accounts and projects listed, and that the remaining cash amount is as stated.

The person signing the check is approving reimbursement of that amount to the custodian name, based on the information certified above.

Each petty cash disbursement must have legible, itemized receipts, as back up, and for funded programs the name of the vendor must be pre-printed on the receipt. Where the purpose of the expenditure is not clear (i.e. parking fee), it should be stated on the petty cash slip.

Once the petty cash account is nearly depleted and needs to be replenished, a summary of all petty cash vouchers needs to be prepared and submitted to the Chief Financial Officer as an invoice o/ledger. The cash on hand plus the non-reimbursed petty cash vouchers should at all times total the

## SECTION V

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### EXPENDITURES AND DISBURSEMENT

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**The following are Gads Hill Center's procurement and purchasing procedures:**

1. Gads Hill Center shall avoid purchasing items that are not necessary for the performance of the activities required by a Federal award.
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 Federal government. This analysis should only be made when both lease and purchase alternatives are available to the program.
3. 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 submitted or market prices. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.
4. Cost/price analysis for routine supplies are performed on an ongoing basis with the current suppliers.
5. Documentation of the cost and price analysis associated with each procurement decision shall be retained in the procurement files pertaining to each Federal award.
6. Gads Hill Center shall make all procurement files available for inspection upon request by a Federal awarding agency.
7. All contracts with vendors shall require the vendor to certify in writing that it has not been suspended or disbarred from doing business with any Federal agency. (Alternatively, the Organization may research potential vendors on the Excluded Parties List at the GSA\ website.)
8. Gads Hill Center shall not utilize the "cost-plus-a-percentage-of-costs method of contracting

All staff members with the authority to approve purchases will receive a copy of and be familiar with Title 45 CFR part 75.329.

## *Use of Purchase Orders*

### **1) Purchase Order**

The purchase order form allows for only one vendor to be included on all requests. These forms are located at the Reception area and each form is pre-numbered to allow the Finance office to keep track of them. Purchasers must indicate the program where the supplies should be charged to, and if known, the applicable funding source. Once completed, obtain approval from the appropriate member of the leadership team, and then place the order. Once the order has been placed submit all the documentation (including the purchase order) to the Contract Specialist.

### **2) Credit Card**

Certain purchases may require or may be facilitated by the use of the Center's credit card. The same procedures described above should be adhered to. In addition 1) purchaser must sign for and obtain the credit card from the Finance Office, and 2) Once you have completed your purchases you will return all documentation to the Finance Office including the credit card, receipts, and the original Purchase Order. Under no circumstances will the credit card be used by any person other than the person who has been given the card. The card must be returned prior to the time noted on the request.

### **1) Approvals and solicitations**

The following table displays all required approvals and solicitations:

<b>Amount of Purchase</b>	<b>Required Approvals</b>	<b>Required Solicitation</b>
≤ \$ \$3,000 Micro Purchases	Program Director	2 oral or written bids
\$3001 ≤ \$150,000 Small Purchases	Chief Executive Officer	2 written bids
> \$150,000 Sealed Bids	Chief Executive Officer, Board of Directors and Executive Committee	3 written bids
> \$150,000 Competitive Proposals	Chief Executive Officer, Board of Directors and Executive Committee	3 written bids

### **Micro Purchases**

Aggregate procurements of supplies or services that do not exceed \$3,000. Gads Hill Center will distribute micro-purchases equitably among qualified suppliers.

### **Small Purchases**

Standard apply to procurement of services, supplies, or other property that do not cost more than the simplified Acquisition threshold (up to \$150,000 except for construction)

### **Sealed Bids**

Formal advertising. Bids are publicly solicited and a firm fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming to all material terms and conditions of the invitation for bids. The Sealed bid method is the preferred method for procuring construction.

- 1) In order for sealed bidding to be feasible conditions should be present
  - (i) A complete, adequate, and realistic specification or purchase description is available
  - (ii) Two or more responsible bidders are willing and able to compete effectively for the business; and
  - (iii) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.
- 2) If sealed bids are used, the following requirements apply:
  - (i) Bids must be solicited from an adequate number of known suppliers, providing them sufficient response time prior to the date set for opening the bids, for local, and tribal governments, the invitation for bids must be publicly advertised;
  - (ii) The invitation for bids, which will include any specifications and pertinent attachments, must define the items or services in order for the bidder to properly respond;
  - (iii) All bids will be opened at the time and place prescribed in the invitation for bids, for local, and tribal governments, the bids must be opened publicly;
  - (iv) A firm fixed price contract award will be made in writing to the lowest responsive and responsible bidder, Where specified in bidding documents, factors such as discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
  - (v) Any or all bids may be rejected if there is a sound document reason.  
Procurement by competitive proposals, the technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

### **Competitive Proposals**

Procurement by competitive proposals, the technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not

appropriate for the use of sealed bids. If this method is used, the following requirements apply:

- (1) Request for proposals must be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals must be considered to the maximum extent practical;
- (2) Proposals must be solicited from adequate number of qualified sources;
- (3) The non-Federal entity must have a written method for conducting technical evaluations of the proposals received and for selecting recipients;
- (4) Contracts must be awarded to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and
- (5) The Non-Federal entity may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional service whereby competitors' qualifications are evaluated and the most qualified competitor is selected. Subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposal effort.

#### **SOLE SOURCES**

#### **SPECIAL PURCHASING CONDITIONS**

##### *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 will be made only when solicitation of multiple vendors is not feasible and one of the following conditions apply:

- The item or service is only available from one source,
- The situation is a public emergency,
- The awarding agency approves the purchase, or
- Competition is deemed inadequate (insufficient bidders)

If Director of program is not available any Leadership member can approved the request. If the Chief Executive Officer is not available the Chief Financial Officer or the Chief Development Officer can approved the request.

The Chief Executive Officer is the only officer authorized to enter into any contract on behalf of Gads Hill Center. The Chief Executive Officer may, at his/her discretion, delegate the authorization of routine contracts of less than \$ 3,000 to the, Chief

Development Officer or Chief Financial Officer. These policies shall also apply to renewals of existing contracts.

#### Evaluation of Alternative Vendors

Vendors shall be evaluated on a weighted scale that considers the following criteria:

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. Vendor's financial stability
7. Vendor's demonstrated commitment to the nonprofit sector
8. Results of communications with references supplied by vendor
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 vendor has been selected, the final selection shall be approved by the Chief Executive Officer prior to entering into a contract.

#### **Contracting with small and minority businesses, Women-Owned Businesses**

Title 45 CFR part 75.330

Positive efforts shall be made by Gads Hill Center to utilize small businesses, minority-owned firms, and women's business enterprises, whenever possible. Therefore, the following steps shall be taken:

- (a) *The non-Federal entity must take all necessary affirmative steps to assure that minority businesses, women's business enterprises, and labor surplus area firms are used when possible.*
- (b) *Affirmative steps must include:*

1. Placing qualified small and minority businesses and women's business enterprises on solicitation lists;
2. Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
3. Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses, and women's business enterprises;
4. Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses, and women's business enterprises;
5. Using the service and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
6. Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed in paragraphs (b)(1) through (5) of this section.

#### **Provisions Included in All Contracts**

Title 45 CFR part 75.335

Gads Hill Center includes the following provisions, as applicable, in all contracts charged to Federal awards (including small purchases) with vendors:

1. **Equal Employment Opportunity:** All contracts shall contain a provision requiring compliance with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Relating to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR part 60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor."
2. **Copeland "Anti-Kickback" Act (18 U.S.C. 874 and 40 U.S.C. 276c):** All contracts and sub grants in excess of \$100,000 for construction or repair awarded by Gads Hill Center and its sub recipients shall contain a provision for compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874), as supplemented by Department of Labor regulations 29 CFR part 3, "Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States." This Act provides that each contractor or sub recipient shall 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. Gads Hill Center will report all suspected or reported violations to the Federal awarding agency.



3. **Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7):** If included in the Federal agency's grant program legislation, all construction contracts of more than \$2,000 awarded by Gads Hill Center and its sub recipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) 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. Gads Hill Center 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. Gads Hill Center shall also obtain reports from contractors on a weekly basis in order to monitor compliance with the Davis-Bacon Act. Gads Hill Center shall report all suspected or reported violations to the Federal awarding agency.
  
4. **Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333):** Where applicable are all contracts awarded by Gads Hill Center in excess of \$100,000 for construction contracts and in excess of \$2,500 for other contracts that involve the employment of mechanics or laborers shall include a provision for compliance with Sections 102 and 107 of the Contract Works Hours and Safety Standards Act (40 U.S.C. 327-333), as supplemented by Department of Labor regulations (29 CFR part 5). Under Section 102 of the Act, each contractor is required to compute 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 1-1/2 times the basic rate of pay for all hours worked in excess of 40 hours in the work week. Section 107 of the Act is applicable to construction work and provides that no laborer or mechanic shall be required to work in surroundings or under working conditions that 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.
  
5. **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 subgrants of amounts in excess of \$100,000 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).

6. **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or sub grants of \$100,000 or more, Gads Hill Center 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 organization 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, Gads Hill Center shall provide such certifications in all situations in which it acts as a sub recipient of a sub grant of \$100,000 or more.
7. **Debarment and Suspension (E.O.s 12549 and 12689):** For all contracts in excess of the threshold fixed at 41 U.S.C. 403(11) (\$25,000), Gads Hill Center shall obtain from the contractor a certification that neither the contractor nor any of its principal employees are listed on the General Services Administration's *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*.
9. **Remedies:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (\$100,000) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms.
10. **Termination:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (\$100,000) shall contain suitable provisions for termination by Gads Hill Center, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe the conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated due to circumstances beyond the control of the contractor.

#### **Right to Audit Clause**

Gads Hill Center requires a "Right to Audit" clause in all contracts between the Organizations and vendors that either:

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

This Right to Audit clause shall permit access to and review of all documentation and processes relating to the vendor's operations that apply to Gads Hill Center, as well as all documents maintained or processed on behalf of Gads Hill Center, for a period of three years. The clause shall state that such audit procedures may be performed by Gads Hill Center employees or any outside auditor or contractor designated by the Organization.

**Vendor Files and Required Documentation**

THE FINANCE OFFICE SHALL CREATE A VENDOR FOLDER FOR EACH NEW VENDOR FROM WHOM GADS HILL CENTER PURCHASES GOODS OR SERVICES.

# CHARGING OF COSTS TO FEDERAL AWARDS

Title 45 CFR part 75.402-75.410

## *Overview*

Gads Hill Center charges incurred costs, direct and indirect, to each cost center throughout the center in the general ledger. Direct Costs are initiated from the cost center and indirect costs are generated through Fiscal Operations based on established allocation methods. Costs which are reasonable, allowable, and allocable to a direct or pass-thru Federal award are identified through the agency's Reimbursement System which links the expenditures to the approved items in the grant budget. All costs, which are deemed unallowable or are not reimbursed by the Federal Award, are appropriately identified in the general ledger monthly reconciliation.

## *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 to determine which costs are specifically allowable or unallowable. Only allowable costs are entered for reimbursement through the Reimbursement System.
2. Accounting personnel shall be familiar with the allowability of costs particularly:
  - a. The list of specifically unallowable costs found in Attachment B (Selected Items of Cost), such as alcoholic beverages, bad debts, contributions, fines and penalties, lobbying, etc.
  - b. Those costs requiring advance approval from Federal agencies in order to be allowable in accordance with Attachment B, such as foreign travel, equipment purchases, etc.
3. No costs shall be charged directly to any direct or pass-thru Federal award until the cost has been determined to be allowable under the terms of the award.
4. For each Federal direct and pass-thru award, an appropriate set of general ledger accounts (or account segments) shall be established in the chart of accounts to reflect the categories of costs identified for each grant program.
5. All items of miscellaneous income or credits, including the subsequent write-offs of uncashed 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 direct or pass-thru Federal award or to activity associated with a direct or pass-thru 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).

### *Criteria for Allowability*

All costs must meet the following criteria, 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 Organization 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 Organization, 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 Organization, 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 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 Organization.
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.

# FUNCTIONAL EXPENSE ALLOCATION

Title 45 CFR part 75.416

## *Direct Costs*

Direct costs include those costs which are incurred specifically for a direct or pass-thru Federal Award. Gads Hill Center identifies and charges these costs exclusively to each award. These expenditures are incurred by the Cost Center Management and recorded appropriately.

Each invoice shall be coded with the appropriate account number reflecting which program(s) received direct benefit from the expenditure. Invoices are approved by the appropriate project director and reviewed by the CFO.

Time/Attendance Cards serve as the basis for payment of salaries/wages for the pay period. The established allocation method serves as the basis for charging salaries to Federal awards.

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).

## **Indirect and Joint Costs**

Indirect costs are those that have been incurred for common or joint objectives and are not readily attributed to a particular grant or program. Joint costs benefit more than one, but not necessarily all, awards. Indirect costs are allocated in the general ledger to each cost center using the established allocation methods. Joint Costs are allocated to benefiting grants using established allocation methods.

Indirect Costs or Supporting Services:

- Facilities Services (Utilities, Rent, Phone Usage etc.)
- Finance
- Development
- Human Resources
- Technology

Joint Costs are:

- Personnel Costs between Funding Awards

Per Federal guidelines, each grant will be charged its fair share of costs. Any costs not reimbursed by a particular funding source will be charged to corporate or other funds that may cover indirect or joint costs after the allocation process is complete.

## **Cost Pools**

Indirect and Joint Costs are allocated in the general ledger to the benefiting programs using allocations under the following methodology:

1. As much as possible, costs will be charged directly to benefiting programs.
2. Indirect and Joint Costs will be allocated to all programs on an equitable basis regardless of any limits imposed by funding sources.
3. Indirect and Joint Costs will be allocated on the most meaningful measures. The following basis are currently used:
  - Salaries and related benefits for direct service positions whose functions and services are shared among multiple programs are allocated to funding sources based on the proportion of clients/participants/children slots in the pool of the shared resource unless there is a clear, distinct and logical funding source or other methodology provided by the funding agency.
  - Finance, Development, Management costs, are allocated to each program and funding unit based on a percentage of direct costs basis as fixed by the Finance Committee each year.
  - Facilities, Utilities including telephones, Rent, Building Maintenance and General and other related expenses are allocated to each program using direct square footages occupied/utilized method.
  - Human Resources expenses are allocated to each program using FTE method, which divides the allocation according to the number of FTE assigned to that funding source.
  - Technology expenses are allocated to each program using the number of computers use method.

### ***Reimbursement for Specific Elements of Cost***

Gads Hill Center utilizes the following methods of reimbursement of specific elements of cost to Federal direct and pass-thru awards as direct, indirect or joint costs:

**Salaries and Wages** – Salaries and wages are reimbursed based on the functions performed by each employee, as documented on each employee's Time/Attendance Card, as follows:

*Direct Service Costs* – The majority of the programmatic employees of Gads Hill Center are allocated to multiple cost centers or grants. The allocations of these expenditures are determined in the budget process based on the established allocation method. These splits are programmed into the Reimbursement

System and are generated through the vouchering process. This process creates entries to multiple funding sources for reimbursement.

Compensated Absences (annual leave taken, personal time used, and holiday pay) are considered part of salary costs. The accounting system records salaries associated with compensated absences the same as regular pay with a different coding. The Reimbursement System treats the payment of Compensated Absences the same as regular salary payments.

**Employee Benefits** – Gads Hill Center incurs costs for the following statutory and non-statutory employee benefits:

- FICA (SS/MC) Tax Payments
- Unemployment Compensation
- Worker's Compensation Insurance
- Health
- Life Insurance
- Long Term Disability Insurance

The total cost for the preceding employee benefits are allocated in the general ledger by budgeted. Since the Reimbursement system tracks employee benefits by individual employee, when the reimbursement voucher is created, the actual net cost of each benefit is calculated for each staff. The actual net cost is then allocated to each contract/award in the same proportions as salaries/wages.

**Facilities Occupancy Expenses** – Monthly occupancy costs and related expenses (utilities, phone, etc) are allocated in the general ledger based on approximate square footage of space utilized by each cost center.

Internal charges are made to the Reimbursement System to reimburse for the pro-rata portion of the occupancy charges approved in the funding budget. The amount reimbursed from the funding contract will never exceed the amount allocated on the general ledger to the funding contract.

**Supplies and Materials** – Office supplies and materials are charged directly to the grant or cost center that uses the supplies or materials. These amounts are transferred to the Reimbursement System and recognized as a direct expense to the funding contract.

**Office Services** – To the maximum extent possible, costs such as postage and shipping, expendable equipment and like expenses shall be charged directly to the grant or cost center that benefits from the costs. Other costs (building security, photocopying, data lines, document destruction, etc), which cannot be identified with a single cost center, are allocated based on the established allocation methods.

Internal charges are made to the Reimbursement System to reimburse for the pro-rata portion of the Office Services charges approved in the funding budget. The amount



reimbursed from the funding contract will never exceed the amount allocated on the general ledger to the funding contract.

**Outside Services (General)** – Gads Hill Center incurs outside service costs for its annual audit, these costs are recognized in the Finance Cost Centers and allocated to the cost centers using the established allocation methods. These Outside Service Costs shall be reimbursed as follows:

*Audit fees* – Costs associated with the preparation of the OMB A-133 Audit Report are reimbursed as a direct cost to the contracts being audited based on estimates received from the independent CPA firm. All other audit-related activities are reimbursed using established allocation methods.

**Outside Services (Direct)** – Gads Hill Center incurs outside service costs in direct support of the program initiatives. These costs are recognized in the cost centers, which directly benefit from the service and are reimbursed as direct costs of the funding contract. When the outside service cost is for the benefit of multiple funding contracts, each funding contract is charged and reimbursed according to the hours the provider delivers to the funding contract.

**Credits** – The applicable portion of any credits resulting from cash discounts, volume discounts, and refunds, write-off of stale outstanding checks, trade-ins, scrap sales or similar credits shall be c

## **ACCOUNTS PAYABLE MANAGEMENT**

### **Overview**

Gads Hill Center shall strive to maintain efficient business practices and effective 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 shall be recorded by an individual who is not responsible for ordering and receiving.
- The amounts recorded shall be based on the vendor invoice for the related goods or services.
- The vendor invoice shall be supported by an approved purchase order where necessary, and shall be reviewed and approved by the purchaser prior to being processed for payment.
- Invoices and related general ledger account distribution codes shall be 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. Vendor credit terms and operating cash are managed for maximum benefits

### **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 shall be processed weekly. Information shall be 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 vendor records. No vendor statements shall be processed for payment.

### **Accounts Payable Cut-Off**

For purposes of the preparation of the Organization's monthly financial statements, all vendor invoices that are received, approved and supported with proper documentation by the 10<sup>th</sup> working 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

### **Preparation of Invoices for Payment**

Prior to any accounts payable being submitted for payment the following documents shall be assembled:

1. Vendor invoice
2. Packing slip (where appropriate)
3. Purchase order as required by procurement policies (where appropriate)
4. Any other supporting documentation deemed appropriate

### **Processing of Invoicing**

The following procedures shall be applied to each invoice by the Contract Specialist:

1. Check the mathematical accuracy of the vendor invoice.
2. Compare the nature, quantity and prices of all items ordered per the vendor invoice to the purchase order, packing slip and receiving report.
3. Document the general ledger distribution, using the Organization's current chart of accounts.
4. Obtain the review and approval of the Executive Director or the CFO.

### **Payment Discounts**

To the extent practical, Gads Hill Center takes advantage of all prompt payment discounts offered by vendors. 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.

### **Mileage Expense Reports**

Reimbursements for mileage incurred on behalf of Gads Hill Center will be reimbursed at the current Federal rate. Mileage logs must be turned in by the 5<sup>th</sup> of the following month and contain the following information:

- Date
- Beginning and ending odometer reading (or a MapQuest printout of the mileage)
- Destination
- Purpose

In addition, each employee or Board member who drives on Organizational business must provide the Accounting Department with a photocopy of their driver's license and proof of current insurance.

### **Reconciliation of A/P Subsidiary Ledger to General Ledger**

At the end of each monthly accounting period, the total amount due to vendors 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.

Also on a monthly basis, the Contract Specialist shall perform the following procedures:

1. Check all statements received for unprocessed invoices.
2. Check the purchase order file for open purchase orders more than 60 days old, and follow up.

### **Management of Accounts Payable Vendor Master File**

Upon the receipt of an invoice from a new vendor that is not already in Gads Hill Center Accounts Payable Vendor Master File, the Account Clerk shall mail (or email) a Form W-9 and a request for completion of the Form W-9, including the vendor's full address and Federal employer identification number.

All vendor files shall include all of the following data:

1. Vendor'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

## **CREDIT CARDS**

### **Issuance of Corporate Credit Cards**

Gads Hill Center has issued the following corporate credit cards:

- Home Depot – used by the Maintenance staff for supplies
- Shell gas card – used by the maintenance staff to fuel Organizational vehicles
- Sam’s card – used by the maintenance staff for cleaning supplies
- Staples card – used by program and administration staff for office supplies and program supplies
- Master Card – Debit card used by Administration to book air fare/registration for Conference trips, etc.

### **Cardholder Responsibilities**

Any fraudulent or other unauthorized charges shall be immediately pointed out to the Chief Financial Officer for further investigation with the credit card provider.

Personal use of corporate credit cards is strictly prohibited. Any personal use shall subject the employee to the Organization’s disciplinary actions discussed earlier in this manual and in the Personnel Manual.

Cardholders shall report the loss or theft of a corporate credit card immediately by notifying the Chief Financial Officer.

### **Revocation of Corporate Credit Cards**

Failure to comply with any of these policies associated with the use of Gads Hill Center corporate credit cards shall be subject to possible revocation of credit card privileges.

The Chief Financial Officer, with the approval of the Chief Executive Officer, shall determine whether credit cards are to be revoked.

## CASH DISBURSEMENTS

1. All program expenditures require an approved purchase order. Purchase orders may be obtained from the Receptionist areas, and must be submitted to the related Senior Staff Member for approval. An original copy of the purchase order is kept in the Finance Office to be used for comparison with and attachment to the vendor's invoice for payment.
2. The person receiving the order compares the items received to the packing slip. The Contract Specialist compares the packing slip to the purchase order and clears up any discrepancies.
3. The Contract Specialist obtains approval of all invoices and expenditures by authorized personnel. No payments will be made from statements.
4. The Contract Specialist prepares all checks for the approved expenditures, using pre-numbered checks.
5. The checks, with supporting documentations (approved invoices, checks requests), are forwarded to the Chief Financial Officer. The Chief Executive Officer, or Leadership Members, reviews all checks and supporting documentation prior to signing checks. Any checks for amounts over \$20,000.00 need a member of the Executive Committee as the counter-signer. The check copies and supporting documentation is then submitted to the Chief Financial Officer. The Contract Specialist is responsible for mailing all checks.
6. Voided checks are not destroyed: they are defaced to prevent their misuse and filed with the canceled checks.
7. Where payment must be presented at the time of purchase or for day to day operations, a pre-numbered, approved check request must be given to the Finance Office along with supporting documentation. Check generation occurs once a week. Emergency checks are written only with the Chief Executive Officer's approval.
8. The Contract Specialist files one copy of the check, with supporting documentation attached, by vendor in alphabetical order. The second copy of the check is filed in numerical order.

## PAYROLL

1. The Chief Executive Officer authorizes all personnel salaries/wage rates. The Chief Executive Officer likewise authorizes all changes in employment.
2. The Human Resources Director or the Payroll Specialist, maintains all personnel records and insurance documents usage of vacation and sick time, and maintains the attendance records.
3. Employee time cards are kept near the time clock. Employees swipe their cards daily when they come in and when they get out from work. The data from the time clock is sent directly to the computer in HR where the data is stored for the pay period. At the end of the pay period, the time reports are printed and given to the receptionist to obtain the employees to signature. The time sheets are then sent up to the employees' manager for proper approval and signature. The time sheets are then sent to the Human Resources office where the HR staff records on a time and attendance system and stores time sheets.
4. The HR office prepares the payroll in coordination with the outside payroll server, using the approved time records and salary/wage rate for each employee. In addition, the HR office makes sure to update any payroll changes approved by the Chief Executive Officer (new hires, terminations, salary increases, benefits, etc.). Payroll Preparation for salaried employees is the same every pay period, until there is a change. The outside payroll server will produce the payroll with pre-number checks. An amount equal to the payroll plus the taxes is impounded by the outside payroll server and placed into the "sweep" account form, which all payroll checks are paid. Payroll occurs on the 15<sup>th</sup> and last day of the month (semi-monthly basis).
5. The payroll is then sent via email to payroll systems. The checks and the payroll summary are received by the reception desk in a FedEx envelope and are given directly to the Chief Financial Officer. He reviews the checks and summary and then puts them in to the safe until pay date. The checks are picked up and signed by each employee at the sites Receptionist areas. The checks for terminated employees' are mailed directly to them. Only the employee is allowed to pick up his/her paycheck unless he or she gives the Finance office written permission otherwise. Checks have a laser signature on them provided by Outsource Payroll Company.
6. All payroll tax liabilities are processed and paid by the outside payroll server at the time payroll is prepared. The payroll taxes are paid when due. The Chief Financial Officer will prepare the semimonthly journal entries for payroll by program and funding source and for payroll taxes by program and funding source.
7. All Head Start; Early Head Start and Child Care Staff working on multiple cost objectives shall complete a personnel activity report reflecting after-the-fact activities worked in each benefiting program. The personnel activity report shall be completed in accordance with the agency payroll and shall be used as the source records for the disbursement of the cost in each benefiting cost objective. The personnel activity report shall be signed by the employee and supervisor with first-hand-knowledge of the work performed in each cost objectives. The following procedures shall be used to complete the activity report.
  - a. Upon arrival at work-site, all employees shall sign & clock-in indicating the start of the day.
  - b. Employees who work on multiple costs objectives (program) shall complete activity logs identifying the actual work in each program. The employee shall

- complete the activity log at minimum daily, reflecting the actual hour worked on the cost objective (program).
- c. At the end of the pay period, employees shall take the following steps to complete the activity report:
    - i. Salaried Employee's; total the hours (including sick and vacation, if applicable) on the activity log by program and convert the hours into percentage of time by program. Record the percentage of time on the personnel activity report.
    - ii. Non-Salaried Employee's; total the hours (including sick, vacation and overtime, if applicable) on the activity log by program and record the hours by program on the personnel activity report.
  - d. The staff shall sign and date the activity report at the conclusion of each month.
  - e. The employee shall submit the signed personnel activity report and activity log to the supervisor.
  - f. The supervisor shall compare the activities recorded on the activity log to the activities recorded on the personnel activity report.
  - g. The supervisor shall sign and date the personnel activity report verifying first-hand-knowledge of the activities performed by the employee in each benefiting program. Note: All discrepancies shall be corrected prior to the supervisor's signature.
  - h. After signing, the supervisor shall submit the personnel activity report(s) to the Finance Department.



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## **SECTION VI**

### **BUDGET**

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A budget shall be prepared on a yearly basis. The Leadership Team, with the Chief Executive Officer are ultimately responsible for the preparation of the budget. All program coordinators should be involved in the initial determination of what financial needs will be required for the upcoming year.

After the initial draft of the budget is prepared, the Chief Executive Officer and Chief Financial Officer meet with the Treasurer and other members of the Finance Committee who shall review the budget for completeness and accuracy, based on known future events/requirements and past knowledge of the Agency's business.

A final draft of the budget shall be sent to the Board of Directors for their review and approval. The final budget shall be approved prior to the start of the Agency's fiscal year (i.e. July 1).

On a monthly basis, the Finance Committee, Chief Executive Officer, and Chief Financial Officer shall review the budget to actual for revenues and expenditures. When events/funding occurs that materially affects the feasibility of the current year budget, a review and possible update shall be made by the Finance Committee, Chief Executive Officer and Chief Financial Officer. If it is determined that the budget needs to be updated, a revised budget shall be sent to the Board of Directors for their review and approval.

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## SECTION VII

### PROPERTY AND INVENTORY MANAGEMENT

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#### **Capitalization Policy**

Physical assets acquired with unit costs in excess of \$1,000 shall be capitalized as property and equipment on the Organization's financial statements. Items with unit costs below this threshold shall be expensed in the year purchased.

Capitalized property and equipment additions shall be accounted for at their historical costs and all such assets, except land, shall be subject to depreciation over their estimated useful lives, as described later in this Manual.

Capitalized assets will be reported as expensed for grants if they were so budgeted in the grant application. However, for the Organization's financial statements, these assets will be capitalized and depreciated according to these policies.

#### **Contributed Assets**

Assets with fair market values in excess of \$1,000 (per unit) that are contributed to Gads Hill Center shall be capitalized as fixed 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, shall be subject to depreciation over their estimated useful lives, as described later.

#### **Equipment and Furniture Purchased with Award Funds** Title 45 CFR part (75.320)

Gads Hill Center may occasionally purchase equipment and furniture that will be used exclusively on a program funded by a Federal agency. In addition to those policies on Asset Management described earlier, equipment and furniture charged to Federal awards shall be subject to certain additional policies as described below.

For purposes of government award accounting and administration, "equipment" shall include all assets with a unit cost equal to the lesser of \$5,000 or the capitalization threshold utilized by Gads Hill Center, described under Asset Management.

All purchases of "equipment" with Federal funds shall be approved, in advance and in writing, by the awarding agency. Planned purchases submitted as part of the grant application budget shall be considered approved when the budget is approved. In addition, the following policies shall apply regarding equipment purchased and charged to Federal awards:

1. Adequate insurance coverage shall be maintained with respect to equipment and furniture charged to Federal awards.

2. A physical inventory of all equipment purchased with grant funds shall be performed annually. The results of the physical inventory shall be reconciled to the accounting records of and grant reports filed by Gads Hill Center.

**Establishment and Maintenance of a Fixed Asset Listing**

All capitalized property and equipment shall be recorded in a property log. This log shall include the following information with respect to each asset:

1. Date of acquisition
2. Cost
3. Description (including model, and serial number or other identification number)
4. Source of the equipment
5. Information to calculate the grant share of the cost of the asset, if applicable
6. Location of asset
7. Depreciation method
8. Estimated useful life

A physical inventory of all assets capitalized under the preceding policies shall be taken on an annual basis by Gads Hill Center. This physical inventory shall be reconciled to the property log and adjustments made as necessary. All adjustments resulting from this reconciliation shall be approved by the Chief Financial Officer.

**Receipt of Newly-Purchased Equipment and Furniture**

At the time of arrival, all newly-purchased equipment and furniture shall be examined for obvious physical damage. If an asset appears damaged or is not in working order, it shall be returned to the vendor immediately.

In addition, descriptions and quantities of assets per the packing slip or bill of lading shall be compared to the assets delivered. Discrepancies shall be resolved with the vendor immediately.

**Depreciation and Useful Lives**

Title 45 CFR part 75.436

All capitalized assets shall be maintained in the special property and equipment account group and are not included as an operating expense. Property and equipment shall be depreciated over their estimated useful lives using the straight-line method.

In the year of acquisition, depreciation shall be recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example: an asset purchased on the 15<sup>th</sup> day of the 5<sup>th</sup> month shall have eight (8) full months of depreciation (8/12 of one year) recorded for that year.)

Estimated useful lives of capitalized assets shall be determined by the Accounting Department in conjunction with the department or employee that will utilize the asset.

The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

Furniture and fixtures Up to 10 years  
General office equipment 5 years  
Computer hardware and peripherals 3-5 years  
Computer software 2-3 years  
Building Renovations/Buildings 15-40 years  
Vehicles 5 years  
Leased assets life of lease

Leasehold Improvements remaining lease term

For accounting and interim financial reporting purposes, depreciation expense shall be recorded monthly.

### **Changes in Estimated Useful Lives**

If it becomes apparent that the useful life of a particular capitalized asset will be less than the life originally established, an adjustment to the estimated useful life shall be made. No such change in the estimated life of a capitalized asset shall be made without the prior approval of the Chief Financial Officer. When a change in estimated useful life is made, the new life shall be 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 Organization'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).

### **Repairs of Property and Equipment**

Expenditures to repair capitalized 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 capitalized 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.

### **Dispositions of Property and Equipment**

If equipment is sold, scrapped, donated or stolen, an adjustment must be made to the fixed asset listing and property log. If money is received for the asset, then the difference between the money received and the "book value" (purchase price less depreciation) of the asset shall be recorded as a loss (if the money received is less than the book value) or a gain (if the money received is more than the book value).

### **Write-Offs of Property and Equipment**

The disposal of all capitalized fixed assets that may be worn out or obsolete shall require the prior approval of the Chief Financial Officer. Property that is discovered to be missing or stolen shall be reported immediately to the Chief Financial Officer. If not located, this property shall be written off the books with the proper notation specifying the reason.

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## SECTION VIII

### FINANCIAL AND TAX REPORTING

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#### **FINANCIAL STATEMENTS**

Title 45 CFR part 75.302

##### **Standard Financial Statements of the Organization**

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 Organization. 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 organization-wide basis shall include:

1. **Statement of Financial Position** - reflects assets, liabilities, and net assets of the Organization and classifies assets and liabilities as current or non-current/long-term.
2. **Statement of Activities** - presents support, revenues, expenses, and other changes in net assets of the Organization, by category of net asset (unrestricted, temporarily restricted and permanently restricted), including reclassifications between categories of net assets.
3. **Statement of Cash Flows** - reports the cash inflows and outflows of the Organization in three categories: operating activities, investing activities, and financing activities.
4. **Statement of Functional Expenses** - presents the expenses of the Organization in a natural or objective format and by function (i.e., which program or supporting service was served).

##### **Frequency of Preparation**

The objective of the Accounting 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 policy shall apply:

A standard set of financial statements described in the preceding section shall be produced on a monthly basis, by the third week of each month.

##### **Review and Distribution**

All financial statements and supporting schedules shall be prepared by the Chief Financial Officer and reviewed and approved by the Chief Executive Officer and Board Treasurer prior to being issued by the Accounting Department.

##### **Budget Variance Analysis and Projections**

The Contract Specialist shall meet monthly with all program Coordinators who have budget responsibility. The purpose of the meeting shall be to review financial results and discuss any budget-to-actual variances.

##### **Quarterly Distribution**

On a quarterly basis, the Board Treasurer with the assistance of the Chief Financial Officer shall present a complete set of financial statements to the full Board.

##### **Annual Financial Statements**

A formal presentation of the Organization's annual financial statements shall be provided by the Independent Auditor to the full Board of Directors. See separate policies regarding the annual audit under "Financial Management Policies."

## **GOVERNMENT RETURNS**

### **Overview**

To conduct business legitimately, Gads Hill Center 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 Gads Hill Center include, but are not limited to, filing annual information returns with the IRS.

### **Filing of Returns**

The Chief Financial Officer shall be responsible for identifying all filing requirements and ensuring that Gads Hill Center is in compliance with all such requirements. The Organization shall file complete and accurate returns with all authorities and make all efforts to avoid filing misleading, inaccurate, or incomplete returns.

Filings made by Gads Hill Center 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 Gads Hill Center is due on the fifteenth day of the fifth month following year-end. An automatic three (3) month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first three (3) month extension, a second three (3) month extension may be requested using Form 8868.
2. **Form 5500** - Annual return for Gads Hill Center employee benefit plans. Form 5500 is due May 31, but a request for extension of time to file may be filed.
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 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 ten (10) days later if all payroll tax deposits have been made in a timely manner during the quarter.

Gads Hill Center fiscal and tax year-end is June 30. All annual tax and information returns of Gads Hill Center (Form 990) shall be filed on the accrual basis of reporting. Federal payroll tax returns shall be prepared by the Organization's external Payroll Administrator.

### **Public Access to Information Returns**

Under regulations that became effective in 1999, Gads Hill Center 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), excluding the list of significant donors (Schedule B) that is attached to the Form 990, but including the accompanying Schedule A, and
2. Gads Hill Center original application for recognition of its tax-exempt status (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.

Gads Hill Center shall adhere to the following guidelines in order to comply with the preceding public disclosure requirements:

Gads Hill Center shall comply with the Federal requirements to make its forms widely available by posting all required forms on the Guidestar website which can be accessed at [www.guidestar.org](http://www.guidestar.org).

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## SECTION IX

### ANNUAL AUDIT

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#### **Role of the independent Auditor**

Gads Hill Center shall arrange for an annual audit of the Organization's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by the Board of Directors shall be required to communicate directly with the Organization's Finance and Audit Committee upon the completion of their audit. In addition, members of the Finance and Audit Committee and Executive Committee are 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 Organization's Annual Meeting, after the financial statements have been reviewed and approved by the Finance and Audit Committee.

#### **How Often to Review the Selection of the Auditor**

Gads Hill Center shall review the selection of its independent auditor in the following circumstances:

1. Any time there is dissatisfaction with the service of the current firm
2. When a fresh perspective and new ideas are desired
3. Every four (4) years to ensure competitive pricing and a high quality of service

#### **Concluding the Audit**

Upon receipt of a draft of the audited financial statements of Gads Hill Center 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 Gads Hill Center
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 letters and 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 Finance and Audit Committee.



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**SECTION X**  
**INSURANCES**

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**Gads Hill Center has the following Insurance coverages:**

Title 45 CFR part 75.317

**Commercial General Liability-Policy Period 7/1/**

Each Occurrence \$1,000,000

Damage to rented premises (Ea. occurrence) \$200,000

MED EXP (Any one person) \$10,000

Personal & Adv. Injury \$1,000,000

General Aggregate \$ 3,000,000

Products-Como/OP AGG \$3,000,000

**Umbrella Liability-Policy Period 7/1/**

Each Occurrence \$4,000,000

**Automobile Liability-Policy Period 7/1/**

Each Occurrence \$1,000,000

**Directors & Officers-Policy Period 10/16/**

Limit \$2,000,000

**Professional Liability-Policy Period 7/1/**

Limits \$1,000,000/\$3,000,000

**Workers Compensation & Employers liability-Policy Period 6/1/**

Each Accident \$1,000,000

For additional information see the Insurance policies

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## SECTION X

### RECORD RETENTION

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Gads Hill retains records as required by law and destroys them when appropriate. The destruction of records must be approved by the [Chief Executive Officer], and logged into the Organization's [Destroyed Records Log]. The formal records retention policy of Gads Hill Center is as follows:

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

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

**GHC Note:**

- ***Simplify the process by sorting out all permanent records and keeping all other records for 7 years. This will eliminate the need to track records for 1, 2, 3 or 7 years.***

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## SECTION XII

### INVESTMENTS

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The Finance Committee shall be responsible for developing an Investment Policy for the investment and administration of the Agency's investment assets (specifically including the Agency's endowment funds), which shall be reviewed and approved from time to time by the Board of Directors.

The Finance Committee shall have full authority to direct the investment and administration of the Agency's investment assets in accordance with such Investment Policy.

The Finance Committee, working with the Chief Executive Officer and Chief Financial Officer, may hire such advisors to assist in the investment and administration of the agency's investment assets as the Committee shall deem reasonable and prudent. The Finance Committee, or it-designated representative, shall monitor and give such direction to such advisor as may reasonably be required.

At least annually the Finance Committee shall report to the Board of Directors on the status of the Agency's investment assets.

At least annually the Board of Directors shall determine the amounts to be distributed from the Agency's endowment funds to the Agency's operating fund.

### **GADS HILL CENTER ENDOWMENT ACCOUNTS INVESTMENT GOALS AND POLICIES**

#### GOALS FOR INVESTMENT RETURN

Gads Hill's Endowment Accounts will be invested with twin goals of sustaining asset value on an inflation-adjusted basis and producing a 4% annual distribution yield. The Center's assets will be invested to produce the maximum total return consistent with prudent risk limits, in order to achieve these primary goals.

#### INVESTMENT POLICY

Assets will be invested to maximize long-term total return, within prudent limits of risk, to achieve annual yield targets and growth in asset value no less than the rate of inflation. The investment portfolio will seek to be broadly diversified. Asset allocation will be determined by long-term targets within defined ranges. Allocations among asset classes will be modified when such actions are expected to produce enhanced returns, reduced risks or both. Diversification may be achieved through the use of managed mutual funds, publicly traded index funds and ETFs. Asset allocation, investment quality and investment performance will be monitored by the Finance Committee.

