

FIVE COUNTY CHILD DEVELOPMENT PROGRAM, INC.

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HEAD START

FISCAL MANUAL

OF

ACCOUNTING POLICIES AND PROCEDURES

REVISED

2013

FIVE COUNTY CHILD DEVELOPMENT PROGRAM, INC.

MANUAL OF ACCOUNTING POLICIES AND PROCEDURES

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INTRODUCTION

The following manual is intended to provide an overview of the accounting policies and procedures for Five County Child Development Program, Inc., which shall be referred to as “FCCDP” or “Organization” throughout this manual.

FCCDP is incorporated in the state of Mississippi. FCCDP is exempt from federal income taxes under IRS Section 501(c)(3) as a nonprofit corporation. FCCDP’s tax-exempt mission is:

“Improving the Quality of Life of Children, Families, and Communities”

This manual shall document the financial operations of the Organization. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls. FCCDP’s policy is to adhere to generally accepted accounting principles (GAAP).

The contents of this manual were approved as official policy of the Organization by the Board of Directors, Head Start Director, and Fiscal Officer. All FCCDP staff is bound by the policies herein, and any deviation from established policy is prohibited.

GENERAL POLICIES

ROLE OF THE BOARD OF DIRECTORS

Five County Child Development Program, Inc. is governed by its Board of Directors, which is responsible for the oversight of the Organization by:

1. Establishing broad policies, including financial and personnel policies and procedures.
2. Ensuring appropriate internal controls are developed and implemented to safeguard Federal funds.
3. Approving grant applications
4. Reviewing financial and program information
5. Soliciting prospective contributors
6. Hiring, evaluating, and working with the Head Start Director
7. Reviewing and approving the annual audit
8. Authorizing establishment of all bank accounts and check signers

COMMITTEE STRUCTURE

The Board of Directors shall form committees to assist the board in fulfilling its responsibilities. These committees are responsible for the review of particular areas and providing recommendations to the full board. Board level committees consist of the following:

1. Executive Committee
2. Finance Committee
3. Audit Committee
4. Personnel Committee
5. Program Committee
6. Public Relations Committee

ROLES OF THE HEAD START DIRECTOR AND STAFF

The Head Start Director shall be responsible for the day-to-day oversight and management of Five County Child Development Program, Inc. The Head Start Director reports directly to the board. The Head Start Director is responsible for hiring and evaluating Department Directors and Area Managers. Each Department Head reports directly to the Head Start Director.

Department Heads are responsible for hiring employees to work in the respective departments with approval from the Head Start Director. All employees within the department shall report directly to that Department Head, who shall be responsible for managing and evaluating all employees within the department.

FISCAL DEPARTMENT OVERVIEW

The Fiscal Department consists of several staff that manage and process financial information for FCCDP. The positions comprising the Fiscal Department of FCCDP are as follows:

- Fiscal Officer
- Payroll Manager/Cash Disbursements/Senior Accountant
- Purchasing Officer
- Accounts Payable/ In-Kind Officer
- Benefits Secretary/Bookkeeper
- Computer Technician/ Inventory Manager

Other officers and employees of FCCDP who have financial responsibilities are as follows:

- Head Start Director
- Treasurer – Board-Level
- Finance Committee
 - Executive Committee
 - Full Board of Directors

The primary responsibilities of the Fiscal Department consist of:

- General Ledger
- Budgeting
- Cash and Investment Management
- Asset Management
- Grants and Contracts Administration
- Purchasing
- Accounts Receivable and Billing
- Cash Receipts
- Accounts Payable
- Cash Disbursements
- Payroll and Benefits
- Financial Statement Processing
- External Reporting of Financial Information
- Bank Reconciliation
- Reconciliation of Sub-Ledgers
- Compliance with Government Reporting Requirements
- Annual Audit
- Leases
- Insurance

All financial records will be maintained on the Cougar Mountain business accounting software.

INTERNAL CONTROL POLICIES

PRACTICE OF ETHICAL BEHAVIOR

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of FCCDP 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. It is each employee's responsibility to apply 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 FCCDP policy?
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?

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

Each director, manager and supervisor is responsible for the ethical business behavior of her/his subordinates. Directors, managers and supervisors must weigh carefully 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.

CONFLICTS OF INTEREST

In addition, no employee, officer, or agent of FCCDP shall participate in the selection, award, or administration of a contract involving FCCDP if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, or any member of his or her immediate family, his or her partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected.

COMPLIANCE WITH LAWS, REGULATIONS AND ORGANIZATION POLICIES

FCCDP 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; nor does the Organization tolerate the disregard or circumvention of FCCDP policy or engagement in unscrupulous dealings. Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden.

Implementation of the provisions of this policy is one of the standards by which the performance of all levels of employees will be measured.

CREDIT CARDS

The following guidelines shall be followed in regards to credit cards issued by FCCDP to employees:

1. Credit cards will be issued to Program Directors or other designated employees, as approved by the Executive Director.
2. Any employees issued a credit card by FCCDP should consider themselves in a position of trust with the agency and should act accordingly. Employees should act in a responsible and ethical manner in relation to the use of agency credit cards.
3. FCCDP reserves the right to perform a credit check on any cardholding employees.
4. It is the responsibility of the cardholding employee to ensure that all purchases made on an FCCDP credit card are reasonable and allowable in accordance with the 2 CFR 230 and program regulations.
5. Under no circumstances are employees to use credit cards issued by FCCDP for personal purchases or for cash advances of any kind.
6. The employee acting as cardholder is responsible for supplying each vendor with a copy of FCCDP's sales tax exemption certificate.
7. Each employee with an FCCDP credit card in his or her possession should exercise proper caution in guarding against theft or loss of the credit card. In the event of theft or loss, the employee is to notify the Fiscal Officer immediately.
8. All purchases made on FCCDP credit cards are subject to FCCDP's procurement policy and should follow all guidelines set forth in the Procurement Procedures Manual.
9. It is the cardholder's responsibility to submit receipts and all other necessary documentation to Accounts Payable in order to ensure that the payment is made on time. The cardholder should also verify that charges on the monthly statement are valid.
10. Each Program Director is responsible for establishing program-specific procedures for the use of credit cards in compliance with the stipulations of the various grants and awards. Please see the Appendix for program-specific procedures.

DISCIPLINARY ACTION

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 violation. 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 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 supervisor who attempts to retaliate, directly or indirectly, or encourages others to do so, against any employee who reports a violation of this policy.

FRAUD POLICY

This policy applies to any fraud or suspected fraud involving employees, officers or directors, as well as members, vendors, consultants, contractors, funding sources and/or any other parties with a business relationship with FCCDP. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with FCCDP.

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any fraud that is detected or suspected must be reported immediately to the Head Start Director, the Fiscal Officer or the Board Treasurer.

ACTIONS CONSTITUTING FRAUD

The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to the following:

1. Any dishonest or fraudulent act
2. Forgery or alteration of any document or account belonging to FCCDP
3. Forgery or alteration of a check, bank draft, or any other financial document
4. Misappropriation of funds, securities, supplies, equipment, or other assets of FCCDP
5. Impropriety in the handling or reporting of money or financial transactions
6. Disclosing confidential and proprietary information to outside parties
7. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to FCCDP. Exception: gifts less than a nominal value.
8. Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
9. Any similar or related irregularity

OTHER IRREGULARITIES

Irregularities concerning an employee's moral, ethical, or behavioral conduct should be resolved by the department management and the Executive Director. If there is a question as to whether an action constitutes fraud, contact the Fiscal Officer or the Board Treasurer for guidance.

INVESTIGATION RESPONSIBILITIES

The Board Treasurer has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. The Board Treasurer may utilize whatever internal and/or external resources he/she considers necessary in conducting an investigation. If an investigation substantiates that fraudulent activities have occurred, the Board Treasurer will issue reports to appropriate designated personnel and to the FCCDP Board of Directors.

Decisions to prosecute or refer the examination results to the appropriate law enforcement and/or regulatory agencies for independent investigation will be made in conjunction with legal counsel and senior management, as will final dispositions of the case.

If suspected fraud or other wrongdoing involves programs funded in whole or in part with federal or state funds, additional responsibilities, such as special reporting and disclosure to the awarding agency, may apply to the organization. It is the policy of FCCDP to fully comply with all additional reporting, disclosure and other requirements pertaining to suspected acts of fraud as described in award documents.

CONFIDENTIALITY

The Fiscal Officer, Head Start Director, and the Board Treasurer treat all information received confidentially. Any employee who suspects dishonest or fraudulent activity must notify the Fiscal Officer or the Board Treasurer immediately, and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act (see Reporting Procedures section below).

Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect FCCDP from potential civil liability.

AUTHORITY FOR INVESTIGATION OF SUSPECTED FRAUD

The Board Treasurer will have:

1. Free and unrestricted access to all FCCDP records and premises, whether owned or rented; and
2. The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody or any such items or facilities when it is within the scope of his/her investigations.

REPORTING PROCEDURES

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.

An employee who discovers or suspects fraudulent activity will contact the Fiscal Officer or the Board Treasurer immediately. The employee or other complainant may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual(s), his or her attorney or representative(s), or any other inquirer should be directed to the Head Start Director or legal counsel. No information concerning the status of an investigation will be given out. The proper response to any inquiry is "I am not at liberty to discuss this matter." Under no circumstances should any reference be made to "the allegation", "the crime", "the fraud", "the forgery", "the misappropriation", or any other specific reference.

SECURITY

Locks will be maintained on the doors to the offices of the FCCDP Fiscal Department. These doors shall be closed and locked in the evenings and whenever the Fiscal Department is vacant. The keys to these locks will be provided to all accounting personnel, Fiscal Officer, and Head Start Director.

The FCCDP corporate seals, blank check stock and signature stamp shall be stored in a fireproof file cabinet in the Fiscal Department. This cabinet will be locked with a key that is kept in the Fiscal Department. Access to this file cabinet shall be by keys under the control of the Fiscal Officer and the Head Start Director.

ACCESS TO ELECTRONICALLY STORED ACCOUNTING DATA

It is the policy of FCCDP to utilize passwords to restrict access to accounting software and data. Only duly authorized accounting personnel with data input responsibilities will be assigned passwords from the Fiscal Officer and Computer Technician 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 quarterly. Administration of passwords shall be performed by a responsible individual independent of programming functions.

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

The Fiscal Officer will also:

- Ensure the file server remains locked at all times unless in use, and
- Observe all work being done by outside parties to the accounting computer network.

The accounting staff's responsibilities relating to electronic security will include:

- Provide the Fiscal Officer with personal passwords for both the network and the accounting software programs.
- Upon completion of using a program or terminal, exit from the program.
- Will not share passwords with or log-on for anyone.
- If a password has been shared, the staff is required to notify the Fiscal Officer immediately and a new password will be assigned.

STORAGE OF BACK-UP FILES

It is the policy of FCCDP to maintain back-up copies of electronic data files off-site in a secure, fire-protected environment. Access to back-up files shall be limited to individuals authorized by management.

The Computer Technician will be responsible for the backup procedures which will include:

- Perform daily incremental backup Monday through Friday using an online data storage facility.
- Perform a full backup on Saturday using an online data storage facility.
- Complete a full backup on the last day of each month using an online data storage facility.

A duplicate copy of all data is stored at a secondary online data storage facility. Both archives are readily available to authorized personnel at any time.

GENERAL OFFICE SECURITY

During normal business hours, all visitors are required to check in with the receptionist. After hours, a security key is required for access to the offices of FCCDP. Keys are issued only to employees of FCCDP as their job responsibilities require.

GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of FCCDP, and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports.

CHART OF ACCOUNTS OVERVIEW

The chart of accounts is the framework for the general ledger system, and therefore the basis for FCCDP's 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, revenue and expense account. Additionally, the use of programs and sub-programs are utilized to properly classify expenses by grant.

FCCDP's chart of accounts is comprised of four types of accounts:

1. Assets
2. Liabilities & Fund Balances
3. Revenues
4. Expenses

DISTRIBUTION OF CHART OF ACCOUNTS

All FCCDP employees involved with account coding responsibilities (assignment or review of coding) or budgetary responsibilities will be issued a current chart of accounts. As the chart of accounts is revised, an updated copy of the chart of accounts shall be distributed to these individuals promptly.

CONTROL OF CHART OF ACCOUNTS

FCCDP's chart of accounts is monitored and controlled by the Fiscal Officer. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the Fiscal Officer, who ensures that the chart of accounts is consistent with the organizational structure of FCCDP and meets the needs of each division and department. The Fiscal Officer is responsible for maintaining account code combinations in the Cougar Mountain system.

ACCOUNT DEFINITIONS

General Ledger

Account Range

1000 - 1999

Category

Assets

Definition

Assets are probable future economic benefits obtained or controlled by the organization as a result of past transactions or events. Assets of FCCDP 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 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 that are assets acquired without the intention of disposing them in the near future. Some examples are security deposits, property and long-term investments.

2000 – 2999

Liabilities

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

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

Long-Term Liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the

financial statements. An example is the non-current portion of a mortgage loan.

3000 – 3999 Fund Balances

Fund Balances are net assets and are further defined in the next section.

4000 – 4999 Revenues

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

5000 - 9999 Expenses

Expenses are outflows or other use of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute FCCDP’s ongoing major or central operations.

CLASSIFICATION OF NET ASSETS

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

Unrestricted Net Assets - Net assets that are not subject to donor or funding source imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that may or will be satisfied through the actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor or funding source imposed stipulations that the Organization permanently maintain certain contributed assets. Generally, donors or funders of such assets permit the Organization to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes.

Net assets accumulated by FCCDP that are not subject to donor imposed restrictions, but which the Board of Directors of the Organization has earmarked for specific uses, shall be segregated in the accounting records as "board-designated" funds within the unrestricted category of net assets.

CHANGES TO THE CHART OF ACCOUNTS

Additions to, deletions from, or any other changes to FCCDP’s standard chart of accounts shall be done through the maintenance function of Cougar Mountain, and only with the approval of the Fiscal Officer.

FISCAL YEAR OF ORGANIZATION

FCCDP shall operate on a fiscal year that begins on October 1 and ends on September 30. Any changes to the fiscal year of the organization must be ratified by majority vote of FCCDP's Board of Directors.

JOURNAL ENTRIES

All general ledgers entries that do not originate from a subsidiary ledger shall be supported by journal vouchers, which shall include a reasonable explanation of each such entry. Examples of such journal entries include:

1. Recording of noncash transactions (in-kind)
2. Corrections of posting errors
3. Non-recurring accruals of income and expenses
4. Adjusting and reclassification entries

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

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a memo explaining the purpose of the transaction and the signature of the authorizer.

It is the policy of FCCDP that all journal entries not originating from subsidiary ledgers shall be authorized in writing on the posted transactions report by initialing or signing the entries.

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

REVENUE RECOGNITION POLICIES

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

1. **Grant income** - Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards)
2. **Miscellaneous Revenue** - Monthly accrual, based on the terms of each agreement. Such revenue includes rents, interest and dividends
3. **Fee for Service income** - Monthly accrual, based on services provided
4. **Contributions** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income)

Categories of revenue may be recorded on the cash basis of accounting (i.e., recorded as revenue when received) for internal reporting as deemed appropriate by the Fiscal Officer. Fiscal year-end revenue accruals will be recorded for audit purposes.

REFUNDS OF REVENUE RECEIVED

The following policies apply to refunds associated with revenue collected by FCCDP:

Funding Sources:

Grant payments may be refunded if, at the completion of accounting for all activities, the fiscal department calculates an overpayment. In addition, a funding source may request a refund based upon information gathered during a monitoring visit or upon review of final report submission. The Fiscal Officer will work with the appropriate program director to assure such calculations are correct, and to approve the refund.

CONTRIBUTIONS RECEIVED

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 acting other than as an owner.

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 more specific than broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in FCCDP's articles of incorporation and bylaws. Restrictions on FCCDP's use of an asset may be temporary or permanent.

Nonreciprocal Transfer - A transaction in which an entity incurs a liability or transfers assets to FCCDP without directly receiving value from FCCDP in exchange.

Exchange Transaction - A reciprocal transaction in which FCCDP and another entity each receive and sacrifice something of approximately equal value.

ACCOUNTING FOR CONTRIBUTIONS

FCCDP shall recognize contribution income in the period in which the Organization receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors. Contribution income shall be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of such restrictions.

When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets shall be recorded.

When it receives support in the form of volunteer labor, FCCDP shall record contribution income and assets or expenses if one of the following two criteria is met:

1. The contributed service creates or enhances a nonfinancial asset (such as a building or equipment),
or
2. The contributed service possesses all three of the following characteristics:
 - a. It is the type of service that would typically need to be purchased by FCCDP if it had not been contributed,
 - b. It requires specialized skills (i.e. formal training in a trade or profession), and
 - c. It is provided by an individual possessing those specialized skills.

Examples of contributed services received and recorded as income and expense by FCCDP include volunteer services and use of certain facilities.

Contributed services that meet one of the two preceding criteria shall be recorded at the fair market value of the service rendered or in accordance with funding source policies.

CLASSIFICATION OF INCOME AND NET ASSETS

All income received by FCCDP is classified as "unrestricted", with the exception of the following:

1. Grants and other awards received from government agencies or other grantors, which are classified as temporarily restricted, and program income as designated by the funding source.

From time to time, FCCDP may raise other forms of contribution income that carry stipulations that FCCDP utilize the funds for a specific purpose or within a specified time period identified by the donor of the funds. When this form of contribution income is received, FCCDP shall classify this income 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), FCCDP 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 FCCDP Board of Directors may determine that it is appropriate to set funds aside for specific projects. To the extent these set-asides result from a Board action, rather than a donor-imposed requirement, the resulting set-aside shall be classified as "unrestricted". However, to identify these funds as being set aside for special projects, such set-asides shall be labeled "Board-Designated" funds within the unrestricted net assets of FCCDP, and shall be reported as a separate component of unrestricted net assets on the FCCDP financial statements.

CASH RECEIPTS

Cash (including checks payable to the Organization) is the most liquid asset an organization has. Therefore, it is the objective of FCCDP to establish and follow the strongest possible internal controls in this area.

PROCESSING OF CHECKS AND CASH RECEIVED IN THE MAIL

For funds that are received directly at FCCDP, cash receipts are centralized to ensure that cash received is appropriately directed, recorded and deposited on a timely basis. All cash and checks received are logged by employees and deposited within 48 hours of receipt.

PROCESSING OF CHECKS AND CASH RECEIVED AT OUTLYING LOCATIONS

For funds that are received at outlying locations such as Head Start centers and Department offices, all cash and checks received are recorded on a numbered receipt, the receipt is verified by a second person and a copy given to the payee. The cash received is then directed to the Fiscal Officer for deposit. Deposits to local banks are made daily, and copies of the deposit slip and cash receipts are maintained by the Fiscal Officer.

CHECK HANDLING PROCEDURES

1. All mail will be opened in the presence of **two** employees (see mail room procedures for further details).
2. Each check received will be immediately cancelled by stamping the back with an endorsement stamp stating "For deposit only –Five County Child Development Program, Inc.."
3. Each check will then be logged in on the Daily Check Receipt Log. Information to include should be the payer's name, check number, description (if available) and the amount.
4. Upon completion of mail processing, each clerk will sign-off on the check receipt log.
5. All checks will be delivered to the accounting clerk who has responsibility for preparing the daily deposit. Each deposit will be identified and coded according to the program receiving the payment and placed into a bank bag for deposit.
6. The Daily Check Receipt Log will be delivered to the General Ledger Accountant responsible for posting the cash receipts into the accounting system.
7. The deposit will be taken to the bank on a daily basis and the processed deposit slips will be delivered to the General Ledger Accountant immediately upon return.
8. The General Ledger Accountant will reconcile the deposit slips to the Daily Check Receipt Log to confirm that all checks received were deposited. Any discrepancies will be resolved at that time.
9. The General Ledger Accountant will confirm the accuracy of coding and post the deposits into the system via the Cash Receipts module.
10. Each daily batch will be reviewed and bundled together along with the Daily Cash Receipts Report by Session number and filed.

PAYMENT MANAGEMENT SYSTEM

Access of grant funds may be available through the Payment Management System under the Department of Health and Human Services. Currently, FCCDP accesses funds for only Head Start. Funds may only be drawn on a reimbursement basis for expenses already incurred. The following procedures apply to the use of the PMS for funding access:

1. Designated program staff reviews expenditures to determine funds needed to cover expenses.
2. Fiscal manger is notified and gives approval.
3. Designated program staff draws funds and sends documentation of request to the fiscal manager, with notification of what date payment is to be expected.
4. Fiscal manager verifies deposit amount and records deposit as a cash receipt into MIP.

The fiscal employee should retain thorough documentation of all requests and compare this to the income shown on the respective program's I&E to ensure that the proper amount is recorded as income for the correct program.

It is the policy of FCCDP that no funds from one program will be used to cover the expenses of another program regardless of the funding source.

ACCOUNTS RECEIVABLE MANAGEMENT

On a monthly basis, a detailed accounts receivable report (showing aged, outstanding invoices by customer) is generated and reconciled to the general ledger by the Fiscal Department. All differences are immediately investigated and resolved, and the reconciliation is reviewed by the Director of Finance.

COLLECTIONS

The vast majority of funds received by the Organization comes from federal and state agencies, therefore, collections is ultimately dependent on availability of funds from the relevant government agencies. There may also be situations where payments to the Organization are delayed due to holds placed by the granting agency. If either of these circumstance delay payment, the Fiscal Officer and the appropriate Program Manager will work together to get the issue resolved as soon as possible.

CREDITS AND OTHER ADJUSTMENTS TO ACCOUNTS RECEIVABLE

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include adjustments for billing errors. All credits shall be processed by an employee who is independent of the cash receipts function. In addition, all credits shall be authorized by the Fiscal Officer.

ACCOUNTS RECEIVABLE WRITE-OFF AUTHORIZATION PROCEDURES

It is the policy of FCCDP to ensure that all available means of collecting accounts receivable have been exhausted before write-off procedures are initiated. Write-offs are initiated by the Department associated with the amount to be written off, in conjunction with the Fiscal Department.

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

POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS

ACCOUNTS PAYABLE MANAGEMENT

FCCDP strives to maintain efficient business practices and good cost control. A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and check reconciliation.

It is the policy of FCCDP that the recording of assets or expenses and the related liability is performed by an employee independent of ordering and receiving. The amounts recorded are based on the vendor invoice for the related goods or services. The vendor invoice should be supported by an approved purchase order where necessary, and should be reviewed and approved by a department director prior to being processed for payment. Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

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

1. Disbursements are properly authorized
2. Invoices are processed in a timely manner
3. 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 are processed on a daily basis. Information is entered into the system from approved invoices or disbursement vouchers with appropriate documentation attached. It is the policy of FCCDP that 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.

PREPARATION OF A VOUCHER PACKAGE

Prior to any requisition being submitted for payment, a package called a "voucher package" shall be assembled. Each voucher package shall contain the following documents:

1. Requisition for payment with signatures (Dept. Head, Fiscal Officer, and Head Start Director)
2. Vendor invoice, purchase order, or employee expense report coded with the appropriate general ledger code
3. Any other supporting documentation deemed appropriate

The following information is required to ensure timely processing of vouchers:

1. The vendor name must match the name on the invoice or ticket. The remittance address must be on the invoice or voucher.

2. The invoice number must be on the voucher. If an invoice does not have a number and you are unsure what to use, please contact the AP staff for assistance.
3. If the invoice is coded to more than one account, the distributed amount must equal the invoice total.
4. The account codes must be valid codes from the current chart of accounts.
5. The requisition must have an approval signature and date in accordance with the approval requirements detailed below.
6. Any changes (cross outs or mark overs) to the codes or amounts must be initialed by the person approving the voucher.
7. If there are any special instructions about the invoice such as, "Pay in next AP run", or "Please release check by a certain date," please specify on requisition.

VOUCHER APPROVAL REQUIREMENTS

Vouchers submitted for payment are subject to the following signature requirements:

1. Approval authority for purchase vouchers has been limited to individuals at the level of Program Director and above or with written approval of the Executive Director.
2. Purchase vouchers less than \$1,000 may be approved by either the Division Director or a designee if they meet the requirements in (1) above.
3. Purchase vouchers from \$1,000 - \$10,000 must be approved by the Division Director and either the Finance Director or Executive Director.
4. Purchase vouchers from \$10,000 - \$15,000 must be approved by the Division Director and the Finance Director and Executive Director.

Purchase vouchers greater than \$10,000 must be approved by the Division Director and Executive Director with prior approval of the Board of Directors. Vehicle purchases up to \$24,999 only require approval by the Division Director and Executive Director.

PROCESSING OF VOUCHER PACKAGES

The following procedures shall be applied to each voucher package by the accounts payable staff:

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. Note the review and approval of the department director (or their designee) associated with the goods or services purchased

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

PAYMENT DISCOUNTS

To the extent practical, it is the policy of FCCDP to take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

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 Director of Finance.

Also on a monthly basis, the Accounts Payable manager shall perform the following procedures:

1. Check all statements received for unprocessed invoices.
2. Check the Purchase Order file for open P.O.'s that are more than 60 days old and follow up.

CASH DISBURSEMENTS (CHECK-WRITING) POLICIES

It is the policy of FCCDP to print vendor checks and expense reimbursement checks on a weekly basis, every Tuesday and Thursday. Checks shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers.

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

1. Expenditures must be supported in conformity with the purchasing, accounts payable, and travel and business entertainment policies described in this manual.
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors.
3. Generally, all vendors shall be paid within 30 days of submitting a proper invoice upon delivery of the requested goods or services.
4. Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any checks.
5. All supporting documentation is attached to the corresponding check prior to forwarding the entire package to an authorized check signer.
6. Checks shall never be made payable to "bearer" or "cash".
7. Upon the preparation of a check, vendor invoices and other supporting documentation shall immediately be canceled in order to prevent subsequent reuse.

CHECK SIGNING

All checks will be signed with 2 signatures through the use of a signature stamp. No checks shall be signed prior to the check being completed in its entirety (no signing of blank checks).

Check signers should examine all original supporting documentation to ensure that each item has been properly checked prior to signing. Checks should not be signed if supporting documentation appears to be missing or there are any questions about a disbursement.

MAILING OF CHECKS

After signature, checks are returned to the fiscal department staff, who then mails checks immediately. Checks shall not be mailed by individuals who authorize expenditures.

VOIDED CHECKS AND STOP PAYMENTS

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

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

RECORD-KEEPING ASSOCIATED WITH INDEPENDENT CONTRACTORS

FCCDP shall obtain a completed Form W-9 or equivalent substitute documentation from all vendors to whom payments are made. A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year-end. Payments to such vendors shall be accumulated over the course of a calendar year.

CLASSIFICATION OF WORKERS AS INDEPENDENT CONTRACTORS OR EMPLOYEES

It is the policy of the FCCDP to consider all relevant facts and circumstances regarding the relationship between FCCDP and the individual in making determinations about the classification of workers as independent contractors or employees. This determination is based on the degree of control and independence associated with the relationship between the FCCDP and the individual. Facts that provide evidence of the degree of control and independence fall into three categories:

1. Behavioral control
2. Financial control
3. The type of relationship of the parties

Facts associated with each of these categories that will be considered by FCCDP in making employee/contractor determinations shall include:

1. Behavioral control:

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

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

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

PAYROLL ADMINISTRATION

FCCDP operates a bi-weekly payroll for agency employees. For all FCCDP employees, a personnel file is established and maintained with current documentation, as described throughout this section and more fully described in FCCDP's Personnel Manual.

The following forms, documents and information shall be obtained and included in the personnel files of all new employees:

1. FCCDP Employment Application (and resume, if applicable)
2. Applicant references (work & personal)

3. Interview questions and notes
4. Form W-4 Employee Federal Withholding Certificate
5. Form I-9 Employment Eligibility Verification
6. Copy of driver's license
7. Copy of Social Security card issued by the Social Security Administration
8. Starting date and scheduled hours
9. Job title and starting salary
10. Authorization for direct deposit of paycheck, along with a voided check or deposit slip

For employees without a current, valid driver's license, acceptable alternative documents shall include:

1. U.S. Passport
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561)
3. Voter's registration card
4. U.S. Military card
5. ID card issued by a federal, state or local government, provided it contains a photo
6. School record or report card (for persons under age 18 only)

For employees without a Social Security card, acceptable alternative documents shall include:

1. U.S. Passport
2. Certificate of U.S. Citizenship (INS Form N-560 or N-561)
3. Original or certified copy of a birth certificate issued by a state, county or municipal authority
4. Certificate of Birth Abroad issued by the Department of State (Form FS-545 or Form DS-1350)
5. U.S. Citizen ID Card (INS Form I-197)
6. Native American tribal document
7. ID Card for use of Resident Citizen in the United States (INS Form I-179)

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

CHANGES IN PAYROLL DATA

It is the policy of FCCDP that all of the following changes in payroll data are to be authorized in writing to the Human Resources and Payroll departments:

1. New hires
2. Terminations
3. Changes in salaries and pay rates
4. Voluntary payroll deductions
5. Changes in income tax withholding status
6. Court-ordered payroll deductions

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the appropriate department director. Voluntary payroll deductions and changes in income tax withholding status

shall be authorized in writing by the individual employee. Documentation of all changes in payroll data shall be maintained in each employee's personnel file.

PAYROLL TAXES

The Fiscal Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid.

Withholding of federal income taxes shall be based on the most current Form W-4 prepared by each employee. Employees must submit a new form W-4 when hired and anytime changes are requested.

PREPARATION OF TIMESHEETS

Signed and approved timesheets must be submitted to the Fiscal Department no later than 12:00 PM on the Tuesday following the close of each pay period. Timesheets shall be prepared in accordance with the following guidelines:

1. Each timesheet shall reflect all hours worked during the pay period (time actually spent on the job performing assigned duties), whether compensated or not
2. Errors shall be corrected by crossing through the incorrect entry, filling in the correct entry, and placing the employee's initials next to the change (i.e. employees shall not use "white out" or correction tape)
3. Compensated absences (vacation, holiday, sick leave, etc.) should be clearly identified as such;
4. Timesheets shall be signed by the employee prior to submission.

After preparation, timesheets shall be approved by department directors or their designees, prior to submission to the Fiscal Department. Corrections identified by an employee's supervisor (department director) shall be authorized by the employee by placing the employee's initials next to the change.

An Organization employee who is on leave, on travel, or is ill on the day that timesheets are due may telephone or fax timesheet information to his or her supervisor (or designated alternate). Time so submitted must reflect the actual time worked and the appropriate classifications. The employee must initial a timesheet submitted in this manner immediately upon his/her return to the office. The timesheet shall be signed by the supervisor or the designated alternate.

PROCESSING OF TIMESHEETS

Processing of timesheets in the Fiscal Department is performed by the Payroll Manager. The Payroll Manager spot-checks the timesheets for mathematical accuracy, and then inputs all timesheets into the payroll system.

After the timesheets are individually entered into the system, a trial payroll report is run. The trial payroll report is checked against the timesheets for accuracy. The Payroll Clerk may not change or correct timesheets.

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

REVIEW OF PAYROLL

Upon production of all payroll reports and checks, the Fiscal Officer reviews payroll prior to its distribution to employees.

DISTRIBUTION OF PAYROLL

Payroll payments (or check stubs for electronic deposits) shall be distributed by individuals who do not approve time sheets, are not responsible for hiring and firing, and do not control the preparation of payroll.

POLICIES PERTAINING TO SPECIFIC ASSET AND LIABILITY ACCOUNTS

CASH AND CASH MANAGEMENT

CASH ACCOUNTS

Deposit Account:

The primary operating account provides for routine business check disbursements. All program receipts are deposited to this account unless the funding source requires a separate deposit account. Program receipts deposited to separate accounts sweep into this account nightly. Disbursements from this account are by way of transfers to the other operating accounts.

Central Operating Account:

All agency disbursements are made from this account. Deposits are by electronic funds transfer from the Deposit Account, and are based on requests from Accounts Payable for check runs. All monthly wire transfers by the agency also come out of this account.

Payroll Account:

All issued agency payroll check are charged to this account. Deposits are made by electronic funds transfer from the Deposit Account and correspond to payroll check runs.

Program Deposit Accounts:

These accounts are maintained as required by funding sources to record the receipt of program funds.

Savings Accounts:

These accounts are required by funding sources to receive and hold restricted funds.

BANK RECONCILIATIONS

Bank statements are forwarded to the Fiscal Department, where reconciliation between the bank balance and general ledger balance is prepared by someone who is not an authorized check signer. The statements are distributed to members of the Fiscal staff, based on their program assignments, for reconciliation.

The Fiscal Officer reviews and approves reconciliations of all accounts. Bank reconciliations are also reviewed and approved by a designated FCCDP Board Member. It is the policy of FCCDP to complete the bank reconciliation process within one week of receipt of each bank statement. Bank reconciliations and copies of resulting journal entries are filed in the current year's accounting files. All canceled checks returned with bank statements shall be filed by bank account and month. Check copies returned or check images on CD are stored in a fireproof safe.

CASH FLOW MANAGEMENT

The Fiscal Officer monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis. Draws on the agency line of credit will only be made if cash funds are unavailable. Draws will only be processed with the approval of the Head Start Director and Fiscal Officer.

STALE CHECKS

It is the policy of FCCDP to void and re-issue all checks that are more than 90 days outstanding. All stale checks that are written off within the same fiscal year as they were written shall be credited to the same expense or asset account that was debited when the check was written, or the expenditure incurred. For stale checks written off in fiscal years subsequent to the year in which the check was written, the credit shall be to miscellaneous income in the program initially charged.

INVESTMENT POLICIES

It is the policy of FCCDP to treat all assets of the organization, including those funds that are legally unrestricted, as though they are held by FCCDP in a fiduciary capacity for the purpose of accomplishing the organization's tax-exempt mission. As such, the policies described in this section are to be interpreted in light of that overall sense of stewardship, and the investment standards of FCCDP shall be those of a prudent investor.

DELEGATION OF AUTHORITY

The Board of Directors of FCCDP has delegated supervisory authority over its investing activities to the Board Executive Committee. The Executive Committee is responsible for regularly reporting on the organization's investments to the full Board.

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

INVESTMENT OBJECTIVES

FCCDP's investment objectives are the preservation and protection of the organization's assets, and the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriate return on investments.

ALLOWABLE INVESTMENTS

Investments of FCCDP shall be made exclusively with the following securities:

1. Federally-insured Certificates of Deposit, not to exceed \$100,000, including interest, at commercial banks or savings and loan institutions;
2. U.S. Treasury securities and securities of Federal agencies and instrumentalities;
3. Money market funds that invest in securities approved under these guidelines.

FCCDP shall not engage in margin transactions, short selling, commodity transactions or use of derivatives.

DIVERSIFICATION

No more than ten percent of the investments of FCCDP shall be in the securities of any one issuer, with the exception of obligations of the U.S. government, its agencies and instrumentalities, and federally-insured certificates of deposit.

ACCOUNTING TREATMENT

All purchased investments shall initially be recorded at cost. All investments acquired by donation to FCCDP shall initially be recorded at their fair market value as of the date of donation. Donated investments shall be recorded as unrestricted, temporarily restricted, or permanently restricted income and net assets based on the existence or absence of such restrictions, as defined earlier.

Subsequent to acquisition, it shall be the policy of FCCDP to carry all equity securities with readily determinable fair market values and all debt securities at their market values. Adjustments to market value shall be made in the accounting records and financial statements of FCCDP on a quarterly basis.

Adjustments to market value result in unrealized gains and losses on investments. Such gains and losses resulting from contributed investments shall be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of explicit restrictions on such appreciation and depreciation from the donor, as defined earlier.

PROCEDURES AND REPORTING

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

1. The Fiscal Officer shall maintain a schedule of investments and reconcile this schedule with the general ledger and with investment account statements on a monthly basis. The schedule of investments shall include the following information with respect to each investment:
 - a. Date acquired
 - b. Method of acquisition (purchase or donation)

- c. Cost or basis at acquisition
 - d. Description of investment
 - e. Interest rate (if applicable)
 - f. Date of maturity (if applicable)
 - g. Holder/issuer of security
 - h. Current market value
 - i. Unrealized gain or loss
 - j. Accrued interest receivable (if applicable)
 - k. Income received, year-to-date (i.e. interest, dividends, etc.)
2. The Fiscal Officer and the investment counselor shall prepare a schedule of investments for presentation on a quarterly basis for the Finance Committee and on an annual basis for the Board of Directors.
 3. The quarterly investment reports shall detail the portfolio's composition and performance for the quarter and year-to-date, along with a comparison to budget and to the prior year.
 4. The annual investment report shall be presented to the Board of Directors at the time the FCCDP audit is presented, outlining in detail the investment portfolio's composition and performance for the fiscal year, along with a comparison to appropriate market indices. The report will show results for the most recently completed fiscal year and for last three years.
 5. Investment policies shall be reviewed annually by the Fiscal Officer and the Head Start Director working with the Executive Committee, to determine any appropriate modifications.
 6. Recommendations for any revisions or modifications to the investment policy will be made by the Finance Committee to the Board of Directors for their approval.

CAPITALIZATION POLICY

Physical assets acquired with unit costs in excess of \$5,000 are capitalized as fixed assets on the financial statements. Items with unit costs below this threshold shall be expensed in the year purchased.

Capitalized fixed assets are accounted for at their historical cost and all such assets, except land and certain works of art and historical treasures, are subject to depreciation over their estimated useful lives, as described later.

Certain programs and funding sources may require different capitalization thresholds. It is the responsibility of the director of such programs to ensure that the Fiscal Officer is made aware of these thresholds and that the related assets are recorded accordingly.

CONTRIBUTED ASSETS

Assets with fair market values in excess of \$5,000 (per unit) that are contributed to FCCDP 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, are subject to depreciation over their estimated useful lives, as described later.

ESTABLISHMENT AND MAINTENANCE OF A FIXED ASSET LISTING

All capitalized fixed assets 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 color, model, and serial number)
4. Location of asset
5. Depreciation method
6. Estimated useful life

A physical inventory of all assets capitalized under the preceding policies will be taken on an annual basis by FCCDP. This physical inventory shall be reconciled to the property log and adjustments made as necessary. All adjustments resulting from this reconciliation will be approved by the Director of Finance.

RECEIPT OF NEWLY-PURCHASED EQUIPMENT AND FURNITURE

At the time of arrival, all newly-purchased equipment and furniture shall be inspected 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 should be resolved with the vendor immediately.

DEPRECIATION AND USEFUL LIVES

All capitalized assets are maintained in the special fixed assets account group and are not to be included as an operating expense. Fixed assets are depreciated over their estimated useful lives using various methods as authorized by the Fiscal Officer.

In the year of acquisition, depreciation is 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 15th day of the fifth month shall have 8 full months of depreciation (eight-twelfths of one year) recorded for that year.

Estimated useful lives of capitalized assets shall be determined by the Fiscal Department in conjunction with the department or employee that shall 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 yrs
General office equipment	5 yrs
Computer hardware and peripherals	3-5 yrs
Computer software	2-3 yrs
Leased assets	life of lease
Leasehold Improvements	remaining lease term

For accounting and interim financial reporting purposes, depreciation expense will be recorded on a monthly basis. These transactions can be recorded in Cougar Mountain as "recurring", and posted automatically each month.

REPAIRS OF FIXED ASSETS

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 FIXED ASSETS

In the event a non-expendable asset is sold, scrapped, donated or stolen, adjustments need to 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 will be recorded as a loss if the money received is less than the book value and a gain if the money received is more than the book value.

WRITE-OFFS OF FIXED ASSETS

The Fiscal Officer approves the disposal of all capitalized fixed assets that may be worn-out or obsolete. Property that is discovered to be missing or stolen will be reported immediately to the Fiscal Officer. If not located, this property will be written off the books with the proper notation specifying the reason.

LEASES

It is the policy of FCCDP to classify all leases in which the Organization is a lessee as either capital or operating leases. FCCDP shall utilize the criteria described in Statement of Financial Accounting Standards No. 13 in determining whether a lease is capital or operating in nature. Under those criteria, a lease shall be treated as a capital lease if, at the time of entering into the lease, any of the following factors are present:

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

All leases that do not possess any of the four preceding characteristics shall be treated as operating leases. In addition, all leases that are immaterial in nature shall be accounted for as operating leases.

ACCOUNTING FOR LEASES

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

All leases that are classified as capital leases shall be treated as fixed asset additions of FCCDP. As such, upon the inception of a capital lease, FCCDP shall record a fixed asset and a liability under the lease, based on the net present value of the minimum lease payments (or the fair value of the leased asset, if it is less than the present value of the lease payments). Periodic lease payments shall be allocated between a reduction in the lease obligation and interest expense. The fixed asset recorded under a capital lease shall be depreciated over the term of the lease, using the straight-line method of depreciation.

FCCDP shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms.

ACCRUED LIABILITIES

The Fiscal Department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by FCCDP at the end of an accounting period are:

1. Salaries and wages
2. Payroll taxes
3. Vacation pay (see policy below)
4. Rent
5. Interest on notes payable

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

ACCRUED LEAVE

Personnel policies of FCCDP permit employees to carry forward only accrued sick leave from year to year. Leave that does not “vest” with employees (i.e. leave that is not paid to employees if unused at the time of termination of employment), such as sick leave, shall not be accrued as a liability of FCCDP. It is the policy of FCCDP to pay out any unused discretionary leave at the end of the year only if funds are available. Since the total of the unused leave is not material to the financial statements, no entry is made to record it.

NOTES PAYABLE

It is the policy of FCCDP to maintain a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

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

ACCOUNTING AND CLASSIFICATION

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

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

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

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

POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

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 of FCCDP that are maintained on an organization-wide basis shall include:

1. **Balance Sheet** - reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term
2. **Revenue and Expense Report** - presents support, revenues, expenses, and other changes in net assets of the organization, by category of net asset (unrestricted, temporarily restricted and permanently restricted)
3. **Budget Performance** - 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 both a natural, or objective, format and by function (i.e. which program or supporting service was served)

These reports will be created in the Cougar Mountain system.

FREQUENCY OF PREPARATION

The objective of the Fiscal Department is to prepare accurate financial statements in accordance with generally accepted accounting principles (GAAP), and distribute them in a timely and cost-effective manner. A standard set of financial statements described in the preceding section shall be produced on a monthly basis, by the 10th business day of the following month. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules. The monthly set of financial statements shall be prepared on the cash or accrual method (depending on the requirement of the funding source) of accounting, including all receivables, accounts payable received by the 5th of the month, and actual depreciation expense.

REVIEW AND DISTRIBUTION

After approval by the Fiscal Officer, a complete set of monthly financial statements, including the supplemental schedules described above, shall be distributed to the following individuals:

1. Executive Director
2. Department Directors and other employees with budget-monitoring responsibilities

3. Board of Directors
4. Policy Council

Financial statements may include an additional supplemental schedule prepared or compiled by the Fiscal Officer. The purpose of this schedule is to provide known explanations for material budget variances in accordance with FCCDP's budget monitoring policies described later in this manual (under the "Financial Management Policies" section).

DISTRIBUTION OF FINANCIAL STATEMENT TO THE BOARD AND POLICY COUNCIL

A complete set of FCCDP financial statements and supplemental schedules shall be available for review by the Board members upon request.

The Fiscal Officer will be responsible for making a financial report to the Board of Directors and Policy Council at regularly-scheduled meetings. The report will include a summary of the total cash inflows and outflows for the fiscal year and any other financial concerns that may require Board action.

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 at the Organization's Annual Meeting or other designated meeting. This presentation will be preceded by a meeting with FCCDP's Finance Committee, at which the Finance Committee will vote to accept or reject the annual financial statements. See separate policies regarding the annual audit under "Financial Management Policies."

TAX AND INFORMATION RETURNS

To legitimately conduct business, FCCDP 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 FCCDP include, but are not limited to, filing annual information returns with IRS, property tax returns, income tax returns, sales tax returns, information returns for retirement plans, annual reporting of compensation paid, and payroll tax withholding tax returns.

FILING OF RETURNS

It is the policy of FCCDP to become familiar with the obligations in each jurisdiction and to comply with all known filing requirements. The Fiscal Officer shall be responsible for identifying all filing requirements and assuring that FCCDP is in compliance with all such requirements.

It is also the policy of FCCDP to file complete and accurate returns with all authorities. FCCDP shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.

Filings made by FCCDP 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 FCCDP is due on the fifteenth day of the fifth month following year-end. An automatic 3-month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first 3-month extension, a second 3-month extension may be requested using Form 8868.
2. **Form 990-T** - Annual tax return to report FCCDP's unrelated trade or business activities (if any), filed with IRS. Form 990-T is due on the fifteenth day of the fifth month following year-end. An automatic 6-month extension of time to file Form 990-T may be obtained by filing Form 8868.
3. **W-2's and 1099's** - Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to the 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 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.

FCCDP's fiscal year-end is the last day of September. All annual tax and information returns of FCCDP (Form 990) are filed on the accrual basis of reporting.

Federal and all applicable state payroll tax returns are prepared by the Payroll staff, and reviewed and signed by the Fiscal Officer.

PUBLIC ACCESS TO INFORMATION RETURNS

Under regulations that became effective in 1999, FCCDP 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. FCCDP's original application for recognition of its tax-exempt status (Form 1023), filed with IRS, and all accompanying schedules and attachments.

It is the policy of FCCDP to adhere to the following guidelines in order to comply with the preceding public disclosure requirements:

1. Anyone appearing in person at the offices of FCCDP during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Fiscal Officer shall be responsible for maintaining this copy of each form and for making it available to all requesters.
2. For all written requests for copies of forms received by FCCDP, the Organization shall require prepayment of all copying and shipping charges. For requests for copies that are received without prepayment, FCCDP will notify the requester of this policy via phone call or by letter within 7 days of receipt of the original request.
3. The copying cost charged by FCCDP for providing copies of requested forms shall be \$1.00 for the first page copies and \$0.15 for each subsequent page. All copies shall be shipped to requesters via Priority Mail, thus, shipping charges will be a standard \$3.00 per shipment.

4. After payment is received by FCCDP, all requested copies should be shipped to requesters within 30 days. Production of all copies and shipping within the 30-day time period shall be the responsibility of the Fiscal Department.
5. For requests for copies made in person during normal business hours, copies shall be provided while the requester waits.
6. FCCDP shall accept certified checks and money orders for requests for copies made in person. FCCDP shall accept certified checks, money orders, credit cards or personal checks as payment for copies of forms requested in writing.

As an alternative to steps 2 through 6 above, the Organization may choose the option to make its forms widely available by posting all required forms on the World Wide Web and referring all requesters to the appropriate Web site within 7 days of receipt of any request for copies.

FINANCIAL MANAGEMENT POLICIES

BUDGETING

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

PREPARATION AND ADOPTION

Annually, a budget is prepared for each program based on their program year. Budgets are prepared on the cash basis due to funding sources requirements. Budgets are submitted to the Director of Finance for review of compliance with contract provisions. The Finance Committee also reviews and approves each budget.

MONITORING PERFORMANCE

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by the Fiscal Department and distributed to each employee with budgetary responsibilities. Program managers meet with the Executive Director quarterly to discuss the performance of each program.

BUDGET MODIFICATIONS

Budget modifications may occur through the year depending on the requirements of each program and funding source. If the funding source must approve a modification, the Director of Finance reviews and approves the modification request prior to submission.

ANNUAL AUDIT

It is the policy of FCCDP to 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 FCCDP will be required to communicate directly with the Organization's Finance Committee upon the completion of their audit. In addition, members of the Finance 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 during a regularly scheduled Board meeting after the financial statements have been reviewed and approved by the Finance Committee.

HOW OFTEN TO REVIEW THE SELECTION OF THE AUDITOR

FCCDP shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm
2. When a fresh perspective and new ideas are desired
3. Every 5 years to ensure competitive pricing and a high quality of service (this is not a requirement to change auditors every five years; simply to re-evaluate the selection)

SELECTING AN AUDITOR

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

1. The firm's reputation in the nonprofit community
2. The depth of the firm's understanding of and experience with not-for-profit organizations and federal reporting requirements under OMB Circular A-133
3. The firm's demonstrated ability to provide the services requested in a timely manner
4. The ability of firm personnel to communicate with Organization personnel in a professional and congenial manner

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

1. Period of services required
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)
4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings
5. Organization chart of FCCDP
6. Chart of account information
7. Financial information about the organization
8. Copy of prior year reports (financial statements, management letters, etc.)
9. Identification of need to perform audit in accordance with OMB Circular A-133
10. Other information considered appropriate
11. Description of proposal and format requirements
12. Due date of proposals
13. Overview of selection process (i.e. whether finalists will be interviewed, when a decision shall be made, etc.)
14. Identification of criteria for selection

Minimum Proposal Requirements from prospective CPA firms shall be:

1. Firm background
2. Biographical information (resumes) of key firm member who will serve FCCDP
3. Client references
4. Information about the firm's capabilities

5. Firm's approach to performing an audit
6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
7. Other resources available with the firm
8. Expected timing and completion of the audit
9. Expected delivery of reports
10. Cost estimate including estimated number of hours per staff member
11. Rate per hour for each auditor
12. Other information as appropriate

In order to narrow the proposals to the top selections, the Fiscal Officer may meet with the prospective engagement teams from each proposing firm to discuss their proposal. Copies of all proposals shall be forwarded to each member of the management team charged with making the selection. After the Fiscal Officer narrows down the field of prospective auditors to three firms, final interviews of each firm are conducted by the management team, who makes the final recommendation to the Finance committee for approval.

PREPARATION FOR THE ANNUAL AUDIT

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

1. **Planning** – The Fiscal Officer is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.
2. **Involvement** - Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.
3. **Interim Procedures** - To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Organization's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Organization staff will as much as possible in order to provide requested schedules and documents and to otherwise assist the auditors during any interim audit fieldwork that is performed.

Throughout the audit process, it shall be the policy of FCCDP to make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

CONCLUDING THE AUDIT

Upon receipt of a draft of the audited financial statements of FCCDP from its independent auditor, the Fiscal 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 FCCDP
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 Fiscal Officer.

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

FINANCE COMMITTEE RESPONSIBILITIES

The Finance Committee's responsibilities include, but shall not be limited to, the following:

1. Appointment of, and communication with, the Organization's independent auditors
2. Review and approval of the annual, audited financial statements
3. Discussion of internal control matters with the independent auditor
4. Conducting a quarterly analysis of the Organization's financial statements
5. Making policy and other recommendations to the FCCDP Board of Directors regarding matters arising out of the audit

In fulfilling these duties and responsibilities, the Finance Committee is entitled to examine any and all documents within the control of FCCDP and its employees. In addition, the Finance Committee shall have the authority to contract with independent contractors in the fulfillment of the committee's responsibilities.

INSURANCE

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

It is the policy of FCCDP to maintain adequate insurance against general liability, as well as coverage for buildings, contents, computers, fine arts, equipment, machinery and other items of value.

COVERAGE GUIDELINES

As a guideline, FCCDP will arrange for the following types and levels of insurance as a minimum:

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Comprehensive Liability	\$1,000,000
Automobiles for Employees, Volunteers or Escorts	\$1,000,000
Fidelity Bond	\$125,000 for all employees
Umbrella policy	\$1,000,000

Fire and Water Damage	Coverage for all items with acquisition cost greater than \$1,000
Directors and Officers	\$1,000,000 (with an appropriate deductible level)
Theft	Coverage for all items with acquisition cost greater than \$1,000
Workers' Compensation	To the extent required by law
Day Care Insurance	\$1,000,000

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

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

INSURANCE DEFINITIONS

Workers' Compensation and Employer's Liability

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

Fidelity Bond

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

Comprehensive Liability

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

RECORD RETENTION

It is the policy of FCCDP to retain records as required by law and to destroy them when appropriate. The destruction of records must be approved by the Fiscal Officer, and logged into the Organization's Destroyed Records Log. The formal records retention policy of FCCDP is as follows:

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

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

FUNCTIONAL EXPENSE ALLOCATIONS

As one of its financial management objectives, FCCDP strives to determine the actual costs of carrying out each of its program service and supporting activities. In this regard, it is the policy of FCCDP to charge expenses to the appropriate category of program service or supporting activity. Expenses that serve multiple functions or are not readily identifiable with one function shall be allocated between functions whenever possible.

Program and supporting service functions of FCCDP are:

Programs:

1. Head Start
2. Transportation

DIRECT CHARGING OF COSTS

Certain internal costs shall be directly charged to the appropriate FCCDP function based upon underlying documentation. The following costs shall be directly charged based on the documentation or factor listed next to each:

<u>Cost</u>	<u>Basis For Charge</u>
Salaries	Timesheets (hours)
Occupancy (facilities) costs	Actual square footage used by each function
Copy costs	Actual cost per copy based on monthly copier billings
Human resource function	Number of full time equivalents (FTEs) in each program, or directly to specific programs if applicable

With the exception of salaries, which are allocated according to time spent each payroll cycle, all other costs identified are charged to the appropriate program based upon allocation percentages identified in the agency's cost allocation plan at the time of payment.

POLICIES PERTAINING TO FEDERAL AND STATE AWARDS

ADMINISTRATION OF FEDERAL AND STATE AWARDS

There are several types of agreements through which FCCDP may receive financial assistance from a donor/grantor agency:

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

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

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

Throughout this manual, federal or state assistance received in any of these forms will be referred to as a federal or state "award."

PREPARATION AND REVIEW OF PROPOSALS

Individual departments are responsible for preparing proposals for projects that the department intends to pursue. However, all proposals shall be reviewed by the Fiscal Officer prior to submission to government agencies or other funding sources. Final proposals shall be reviewed and approved in writing by the Head Start Director and the Board of Directors.

POST-AWARD PROCEDURES

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

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

COMPLIANCE WITH LAWS, REGULATIONS AND PROVISIONS OF AWARDS

FCCDP recognizes that as a recipient of Federal and State funds, the Organization is responsible for compliance with all applicable laws, regulations, and provisions of contracts and grants. To ensure that the

Organization meets this responsibility, the following policies apply with respect to every grant or contract received directly or indirectly from a Federal or State agency:

1. Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations.
2. Review the "OMB Circular A-133 Compliance Supplement" (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all Federal awards.
3. Review the section of the Catalog of Federal Domestic Assistance applicable to the award.
4. The FCCDP Fiscal Department shall identify and communicate any special changes in policies and procedures necessitated by Federal or State awards as a result of the review of each award.
5. The Organization shall cooperate with the Independent Auditors by informing the CPA firm as to applicable laws, regulations, and provisions of contracts and grants and communicating known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

BILLING AND FINANCIAL REPORTING

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

FCCDP shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports shall be the responsibility of the General Ledger manager, subject to review and approval by Fiscal Officer.

The following policies shall apply to the preparation and submission of billings to federal and state agencies under awards made to FCCDP:

1. It is the policy of FCCDP to request reimbursement after expenditures have been incurred, unless an award specifies another method.
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 federal or state award will be prepared and filed on a timely basis. To the extent FCCDP's year-end audit results in adjustments to amounts previously reported to federal or state agencies, revised reports should be prepared and filed in accordance with the terms of each award.

If a federal or state award authorizes the payment of cash advances to FCCDP, the Fiscal Officer may request that a request for such an advance be made. Upon receipt of a cash advance from a federal or state agency, FCCDP shall reflect a liability equal to the advance. As part of the monthly closeout and invoicing process, the liability shall be reduced, and revenue recognized, in an amount equal to the allowable costs incurred for that period.

PROCUREMENT UNDER FEDERAL AND STATE AWARDS

Procurement of goods and services whose costs are charged to federal or state awards received by FCCDP are subject to all of the specific FCCDP purchasing policies as described in the Agency's "Purchasing Policies and Procedures Manual" and the procurement policies of the funding source, whichever is more restrictive.

EQUIPMENT AND FURNITURE PURCHASED WITH FEDERAL AND STATE FUNDS

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

For purposes of Federal award accounting and administration, "equipment" shall include all assets with a unit cost equal to \$5,000 or more with an expected useful life of greater than one year, unless a grant award specifies a lower amount.

All purchases of "equipment" with federal or state funds shall be approved in advance in writing by the awarding agency. In addition, the following policies shall apply regarding equipment purchased and charged to federal or state awards:

1. Any equipment that is owned by the Federal or State government and given to FCCDP for use in a program shall be marked as such, and information from which one can calculate the percentage of Federal or State participation in the cost of the equipment shall be maintained in fixed asset records (not applicable to equipment furnished by the Federal or State Government).
2. Adequate insurance coverage will be maintained with respect to equipment and furniture charged to Federal or State awards.
3. For equipment (or residual inventories of supplies) with a remaining per unit fair market value of \$5,000 or less at the conclusion of the award, FCCDP shall retain the equipment without any requirement for notifying the federal agency. If the remaining per unit fair market value is \$5,000 or more, FCCDP shall gain a written understanding with the federal or state agency regarding disposition of the equipment. This understanding may involve returning the equipment to the agency, keeping the equipment and compensating the agency, or selling the equipment and remitting the proceeds, less allowable selling costs, to the federal or state agency.
4. A physical inventory of all equipment purchased with federal or state funds shall be performed every year. The results of the physical inventory shall be reconciled to the accounting records of and federal or state reports filed by FCCDP.

STANDARDS FOR FINANCIAL MANAGEMENT SYSTEMS

In accordance with OMB Circular A-110, it is the policy of FCCDP to maintain a financial management system that provides for the following:

1. Accurate, current and complete disclosure of the financial results of each federally and state-sponsored project or program in accordance with the reporting requirements of Circular A-110 and/or the award.
2. Records that identify adequately the source and application of funds for federally and state-sponsored activities. These records shall contain information pertaining to Federal or State awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.
3. Effective control over and accountability for all funds, property and other assets. FCCDP shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
4. Comparison of outlays with budget amounts for each award. Whenever possible, financial information shall be related to performance and unit cost data.
5. Written procedures to minimize the time elapsing between the transfer of funds to FCCDP from the U.S. or State Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient.
6. Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal or State cost principles and the terms and conditions of the award.
7. Accounting records including cost accounting records that are supported by source documentation.

BUDGET AND PROGRAM REVISIONS

It is the policy of FCCDP to request prior approval from Federal or State awarding agencies for any of the following program or budget revisions:

1. Change in the scope or objective of the project or program, even if there is no associated budget revision requiring prior written approval.
2. Change in a key person (project director, etc.) specified in the application or award document.
3. The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.
4. The need for additional funding.
5. The transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa, if approval is required by the Federal or State awarding agency.
6. The inclusion, unless waived by the Federal or State awarding agency, of costs that require prior approval in accordance with OMB Circular A-122.
7. The transfer of funds allotted for training allowances (direct payment to trainees) to other categories of expense.

CLOSE OUT OF FEDERAL AND STATE AWARDS

FCCDP shall follow the close out procedures described in OMB Circular A-110 and in the grant agreements as specified by the granting agency.

FCCDP shall liquidate all obligations incurred under the grant or contract within 90 days of the end of the grant or contract agreement.

CHARGING OF COSTS TO FEDERAL AND STATE AWARD

It is the policy of FCCDP that only costs that are reasonable, allowable and allocable to a Federal or State award shall be charged to that award directly or indirectly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to Federal or State awards.

SEGREGATION OF ALLOWABLE AND UNALLOWABLE COSTS

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

1. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.
2. Accounting personnel shall be familiar with the allowability of costs provisions of 2 CFR 230 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 or State 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 Federal or State award until the cost has been determined to be allowable under the terms of the award and/or 2 CFR 230.
4. For each Federal or State award, an appropriate set of general ledger accounts shall be established in the chart of accounts of FCCDP to reflect the categories of allowable costs identified in the award or the award budget.
5. All items of miscellaneous income or credits, including the subsequent write-offs of 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 Federal award or to activity associated with a Federal or State 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

It is the policy of FCCDP that all costs must meet the following criteria in order to be treated as allowable direct or indirect costs under a Federal or State 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 or State award;
 - b. The cost benefits both the Federal or State 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, but, where a direct relationship to any particular program or group of programs cannot be demonstrated.
3. The cost must conform to any limitations or exclusions of 2 CFR 230 or the Federal or State award itself.
4. Treatment of costs must be consistent with policies and procedures that apply to both federally or state 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 or State financed program in the current or prior periods.
8. The cost must be adequately documented.

DIRECT COSTS

Direct costs include those costs that are incurred specifically for one award or function. FCCDP identifies and charges these cost exclusively to each award or program.

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

Time sheets or personnel activity reports, described earlier, are also submitted on a regular basis reflecting employees' work and which programs directly benefited from their effort. Time sheets or personnel activity reports shall serve as the basis for charging salaries directly to Federal or State awards and non-Federal or State functions.

Equipment purchased for exclusive use on a federal or state award and reimbursed by a federal or state agency shall be accounted for as a direct cost of that award (i.e. such equipment shall not be capitalized and depreciated).

ACCOUNTING FOR SPECIFIC ELEMENTS OF COST

FCCDP shall utilize the following methods of charging specific elements of cost to federal or state awards as direct or indirect costs:

Salaries and Wages – Salaries and wages shall be charged directly and indirectly based on the functions performed by each employee, as documented on each employee’s timesheet, as follows:

Direct costs – All of the employees of FCCDP charge their time directly since their work is specifically identifiable to specific grants or other (non-federal) programs or functions of the organization.

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

Employee Benefits – FCCDP incurs costs for the following statutory and non-statutory employee benefits:

- FICA
- Unemployment insurance
- Worker’s compensation
- Health insurance
- Contributions to pension plan

Since the FCCDP accounting system tracks employee benefit costs by individual employee, each such benefit cost shall be charged in the same proportion as each individual’s salary.

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

Utilities – Utilities costs incurred by FCCDP include electricity, water, etc. Such utilities costs shall be charged in the same proportion as occupancy costs.

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

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

Photocopying and Printing – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost or depreciation expense of the copier. All printing costs are charged directly to the benefiting grant or program/function.

Communications – Communications costs include the costs of local telephone service and long-distance telephone charges, including charges associated with telephone calls, facsimile transmissions, and Internet connections.

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

Audit fees – Cost of the financial statement audit and preparation of Form 990 shall be charged directly to each program based upon their percentage of total agency expenditures.

Legal fees – Legal fees shall be charged directly to the program/function that benefits from the services.

Staff Development Specialists – Costs associated with staff development specialists shall be charged directly to the program/function that benefits from the services.

Insurance – To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly.

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

COST SHARING AND MATCHING

It is the policy of FCCDP to 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 Federal or State agency regulations identify specific values to be used.

FCCDP shall claim contributions as meeting a cost sharing or matching requirement of a Federal or State award only if all of the following criteria are met:

1. They are verifiable from FCCDP records
2. They are not included as contributions for any other federally-assisted project or program.
3. They are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
4. They are allowable under 2 CFR 230.
5. They are not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
6. They are provided for in the approved budget when required by the Federal or state-awarding agency.
7. They conform to all provisions of 2 CFR 215.
8. In the case of donated space, the space is subject to an independent appraisal to establish its value.

Contributed services used for cost sharing or matching purposes shall be valued at rates consistent with those rates paid for similar work in the Organization (match up experience and skill level), including an estimate of reasonable fringe benefits. In cases in which the required skills are not found in the Organization, rates used shall be consistent with those paid for similar work in the labor market in which FCCDP competes.

It is the policy of FCCDP to require volunteers to document and account for their contributed time in a manner similar to the time-keeping system followed by FCCDP employees.