

AGENCY FINANCIAL MANAGEMENT POLICIES AND PROCEDURES

Board Approved 8.2.07

1. GENERAL PURPOSE

The purpose of these policies is to establish guidelines for developing financial goals and objectives, making financial decisions, reporting the financial status of the Agency, and managing the Agency's funds.

2. FINANCIAL RESPONSIBILITIES

It is the responsibility of the Board of Directors to formulate financial policies, and review operations and activities on a periodic basis. The Board delegates this oversight responsibility to the Treasurer of the Board and the Finance Committee of which the Treasurer is the Chair. This responsibility is shared through delegation with the Executive Director ("E.D.") who may in turn choose to delegate some aspects to others.

The Board shall receive financial reports at least quarterly from the E.D. showing the financial condition of the agency. This shall include budget, expenditure, encumbrance and unexpected funds figures. Such other information as may be deemed necessary by either the Board or the administration shall be presented as required.

The E.D. acts as the primary fiscal agent, responsible to the Board of Directors for properly accounting for all funds of the agency. The accounting system shall conform with the requirements of the Dept. of Behavioral and Developmental Services and the Dept. of Human Services. The E.D. will ensure that good accounting practices are followed, that an appropriate separation of accounts, funds and special monies is in place, and that all necessary financial policies and procedures are implemented.

The E.D., with oversight of The Finance Committee is responsible for the coordination of the following: Annual budget presentation, management of reserve funds and other fund investments, selection of the outside auditors, and approving revenue and expenditure objectives in accordance with the Board approved long-term plans.

The E.D. with oversight by the Finance Committee has the day-to-day operations responsibility for managing Agency funds, ensuring the accuracy of the accounting records, internal controls, financial objectives and policies, financial statement preparation, bank reconciliation review and approval, and inventory (in conformance with recognized standards for fixed assets and accounting).

The E.D. or their designee is responsible for the preparation of the Chart of Accounts, Reporting Formats, Accounts Payable Processing, Payroll input and Payroll processing, Cash Receipts input, Journal Entries for General Ledger, Form 1099 reporting, Form 990 reporting as well as Bank Reconciliations, and the billing and collection of revenues related to services rendered.

The steps for accounts payable are:

- a. A Finance department designee reviews and codes invoices for payment.
- b. The E.D. approves all invoices for payment.
- c. The finance department designee enters the invoices into the system for payment.
- d. Checks are printed.
- e. The E.D. or designee reviews and signs the checks.
- f. The finance department designee compares the checks to the invoices and disburses the checks.

The steps for accounts receivables (A/R) are:

1. Deposits
 - a. The finance department designee opens all mail and forwards all checks to the E.D. or their designee for review. Each check is stamped "for deposit only".

- b. Checks are then returned to the finance department designee to match with the A/R invoices and to record on A/R or cash management monthly sheets or in the system, as appropriate.
 - c. All checks and cash are then given to the finance department designee to complete the deposit record for depositing into the appropriate bank account.
 - d. The finance department designee takes the deposits to the bank.
2. Billing
- a. The E.D. or designee completes all electronic and paper billing and to the state and other funding sources.
 - b. The finance department designee enters all A/R and cash receipts into a database.
 - c. The finance department designee completes the A/R monthly reconciliation and gives it to the E.D. or designee for review and approval.
 - d. The E.D. reviews and approves any bad debt entries.

3. **CONFLICT OF INTEREST**

Members of the Board of Directors are prohibited from activities that might present conflicts of interest. The powers of directorship may not be used to personally benefit the Director at the corporation's expense. If a Director has a financial interest in a corporate transaction, the Director must fully disclose the interest and abstain from voting. Loans to Directors are prohibited.

4. **BUDGETING PROCESS**

The E.D. and the Treasurer shall be responsible for presenting to the Finance Committee and other Board Committees an annual operating budget draft sixty (60) days prior to the end of the fiscal year and thirty (30) days prior to its submission to the Board of Directors.

The Finance Committee shall review and approve the recommended fiscal year budget revenues, expenditures and cash flow, and submit it for approval to the Board of Directors.

The budget shall contain revenues and expenses forecasted by month and annually. A chart describing monthly cash flow shall be included.

5. **FINANCIAL STATEMENTS**

The Agency's financial statements shall be prepared on an accrual basis in accordance with Generally Accepted Accounting Principles ("GAAP").

Under GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the agency and changes shall be classified as unrestricted, temporarily restricted and permanently restricted.

Separate from Unrestricted Funds, resources for various purposes are classified for accounting and maintained for each fund. Several funds are in place for this purpose including but not limited to: Endowment Fund, Restricted Funds, Cash Management Fund, Property and Equipment Fund, etc.

The E.D. or their designee shall prepare and present Monthly Financial Statements in a format approved by the E.D. and Finance Committee. The statements shall be presented to the E.D., senior management, and the BOD for review.

6. **CASH FUND (reserves)**

A cash fund of 3 months expenses of the Agency's monthly operating expenses shall be maintained. (This will be a goal to reach by the end of 2009 fiscal year) When the fund balance falls below this minimum, the Finance Committee and the Board shall develop a plan and budget for rebuilding it.

7. **LINE OF CREDIT**

The line of credit will be maintained to cover one month's expenses and will never be accessed without Board Approval. Any time the line of credit is accessed a plan for repayment and correction will be developed within five working days by the Executive Director, Finance Committee and Board of Directors.

8. AUDIT

The Agency will have an audit of its financial statements annually, within 90 days at the end of each the fiscal year (June 30). The audit shall be completed by a firm of Independent Certified Public Accountants. The E.D. shall have direct responsibility in overseeing the implementation of the Annual Financial Audit.

The E.D. shall recommend to the Finance Committee for approval, the selection of a firm to perform the annual audit. In addition, the Finance Committee shall assist when necessary in the audit preparation, and report the final results to the Board of Directors. A representative of the audit firm shall be invited to attend the annual presentation to the to the Board if the audit report is other than unqualified, or if the auditors report material weaknesses in internal controls or reportable conditions.

The obligation of the agency to undergo audits by federal and state agencies is recognized. A copy of the annual audit will be filed with such federal and state agencies as required.

The Auditor shall prepare the Form 990 and it shall be reviewed by the E.D. and the Finance Committee before submission to the IRS.

9. REVENUE AND INCOME PROCEDURES

The E.D., in conjunction with the Fund Development Committee develops and proposes revenue goals and objectives and submits them to the Board for discussion and approval.

All fees and charges for services provided by the agency are negotiated on an as need basis through proposals for services. Each proposal will have a budget detailing the cost of the service, broken down on an hourly, daily or other rate, as appropriate.

All contributions shall be recorded in accordance with GAAP, with specific attention to standards FASB 116 and 117. Contributions are recorded as pledged or received in accordance with FASB116, and must be credited to the appropriate revenue lines as presented in the annual budget and coded with the appropriate account number as designated in the Agency's Chart of Accounts.

10. RECORDING RECEIPTS

The following procedures for cash received through the mail or given to a staff person shall be in place: Mail should be opened by the agency book keeper and checks shall be endorsed with the Agency's official stamp. All cash and checks received through the mail shall be forwarded to the designated staff in the Finance Department. This person records all checks and cash by date, name of company or individual, designation, and amount.

After recording checks and cash the deposit ticket is created. This deposit is given to the financial manager who records it for accounting purposes and deposits at the bank. An individual deposit ticket shall be prepared with fuplicate copies, bearing a different designation of each account. That record shall include date of deposit, name of sender, amount, and designation. A copy of the bank deposit slip is retained in chronological order with copies of the deposited checks. All cash and checks shall be deposited the same business day if possible, and no later than the next business day into the Agency's Bank Account.

Gifts received electronically, such as stock transfers or on-line contributions should be properly recorded by a staff person in the Finance department, and by the E.D.'s designee. Transactions should be periodically rechecked by the E.D.

The E.D. or their designee shall prepare entries for the general ledger and the bookkeeper shall make the appropriate entries in the General Ledger books. The E.D. or their designee shall reconcile all logs of incoming cash/checks with the deposit slips.

11. RECEIPTS TO DONORS

The Finance Assistant/ Fund Development Staff shall ensure that all donors and contributors shall receive proper acknowledgement of their contributions in accordance with IRS Guidelines.

12. EXPENDITURES PROCEDURES

All expenditures shall be approved by the E.D.. All expenditures shall be coded by account number using the Agency's Chart of Accounts.

The E.D. or their designee maintains standard accounting records containing all aspects of the Agency's financial operations. They include but are not limited to: A general ledger, a check register, and a payroll register.

Invoices shall be approved by the E.D., their designee, or a Board Director. Following the review and approval, check payment vouchers shall be prepared and the invoices shall be distributed to the E.D. or their designee for check payment preparation. Upon payment of a bill, a copy of the check or duplicate of stub shall be stapled onto the bill and payment date and check number shall be printed on the invoice. The paid invoices shall be filed alphabetically according to company/individual name and shall be kept on a fiscal year basis on file.

13. SIGNATURE POLICY

The E.D. and the Board's designees (in the absence of the E.D.) shall sign all checks, drafts, or orders for payment of money, contracts, and commitments for services issued in the name of the Agency Except when the payment is over \$10,000 which requires two signatures. Only when the E.D. or Board President is unavailable and payment is urgent will the Directors (designated signatures) sign for expenditure. The E.D. will be notified in a timely manner when such payments are made.

14. COMPENSATION AND PAYROLL

Payroll is executed every two weeks. Direct deposits will be provided to each employee by the E.D. or their designee.

Monthly payroll expenses shall be verified by the E.D. or their designee against payroll reports and direct deposit reports and reconciled with checking account reports.

The compensation of the E.D. shall be determined by the Executive Committee of the Board. The salaries of all other employees shall be determined by the E.D. or their designee. Compensation ranges for all staff positions shall be approved by the E.D. and the Board of Directors. No employee of the Agency may be compensated outside of the approved range, without the approval of the E.D..

15. LOCAL TRAVEL AND EXPENSE REIMBURSEMENTS

Employees must abide by the Agency's Travel and Expense policy. Travel and expense reports for mileage, meals, hotel, supplies, etc., will be maintained by each employee and then submitted to the supervisor for approval and payment on a bi monthly basis by the E.D. or their designee.

Mileage to and from the employee's residence to the place of work will not be paid by the Agency. Reimbursements will be based on the travel rate established by the E.D. and the Board of Directors and approved through the budgeting process. Travel reimbursement shall not be above IRS Guidelines.

All parking and other expenditure receipts must be attached to the expense voucher as a condition for payment.

16. CREDIT CARD EXPENDITURES

The E.D. will approve the issuance of a company-issued credit card for employees on an as needed basis. Only the E.D. shall allow a limited number of accounts to Directors as deemed necessary. Employees must utilize that card only for agency business. Employees must submit receipts for credit card purchases for recording and reconciliation.

The E.D. shall authorize all other credit or charge accounts to staff. Residential Managers and one designated staff shall have charge privileges at Hannaford Super Market. Likewise a limited number of Walmart cards will be made available. The Board of Directors will review the list of authorized employees annually.

17. PURCHASING

The Board declares its intention to purchase competitively, without prejudice, and to seek maximum value for dollars expended. The E.D. or designee shall supervise the purchasing of all services, equipment and supplies and shall be authorized to approve purchase orders. Records shall reflect all commitments and expenditures.

Any (capital?) expenditure in excess of \$10,000 for the purchase of a single item should have a minimum of three (3) competitive bids if possible. These bids are reviewed by the E.D. and the Finance Committee.

Purchase of less than the approved amount may be made at the discretion of the E.D. without competitive bids. However, for fixed assets, reasonable diligence should be exercised to comparatively shop for available sources.

Any purchase made by a Board member on behalf of the Agency will require prior approval by the E.D..

18. LEASES AND OTHER CONTRACTUAL

The Agency conducts a major part of its operations from leased and purchased facilities. Leases and other contractual agreements are negotiated by the E.D. and executed with the approval of the E.D.. New leases require the approval of the Board of Directors.

The E.D. and the E.D. are authorized to develop and enter into contractual agreements with vendors, bankers, and third parties for the purpose of ensuring the Agency's general operations. The Finance Committee shall review such agreements and make recommendations when necessary.

19. NOTES, LOANS, ETC.

All notes, loans and other indebtedness to be contracted in the name of the Agency (except open accounts and all other routine banking transactions), shall require the signature of the E.D., unless otherwise specified by the Board or established in the present management policies and procedures. All indebtedness must be approved by the E.D. and increases on lines of credit must be approved by the Board of Directors.

20. DEEDS, CONVEYANCES, ETC.

The E.D. or their designee shall execute all Deeds, Conveyances, Mortgages, Leases, Contracts and other instruments in the name of the Agency.

21. BANK ACCOUNTS AND INVESTMENT ACCOUNTS

All funds of the agency shall be deposited in an interest bearing account in a banking institution insured by the FDIC. In any case where excess funds are available, the E.D. will ensure that these funds are placed in accounts or programs that provide the highest rate of return available within the agency's risk tolerance level.

The E.D. shall maintain and oversee Bank and Investment accounts, and ensure the Agency's day-to-day financial operations. Several accounts may be maintained by the Agency as follows:

1. Checking Account
2. Reserve Accounts

3. Certificates of Deposit
4. Brokerage Account

These accounts may be changed as the Agency's financial conditions and requirements change.

22. CHECKING ACCOUNT

All checks, cash, money orders, and credit card deposits, are reviewed by the E.D. and deposited in the appropriate Accounts. Fund raising events, foundations and corporate donations and miscellaneous contributions, shall be deposited into the accounts. Monies shall be transferred from the Checking account into the Money Market Account or the investment account when necessary, by the E.D. or their designee. Checks are written weekly to meet obligations, or ongoing operational expenditures.

23. BANK RECONCILIATIONS

Bank reconciliations shall be completed monthly by the Financial Assistant and cross-referenced with the cash and receipts logs and the monthly Financial Statements. The Financial Statements shall be compiled by the E.D. or their designee. The Statements shall be then reviewed by the E.D. and presented to the Finance Committee.

All Bank Statements, Credit Card Statements, and Endowment Fund Reports will be reconciled every month by the E.D. or their designee, and records will be kept in the Finance office.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of six months or less. The Agency places its temporary cash investments with highly rated financial institutions. The E.D. shall closely monitor the balances of the Checking account, Money Market and Certificates of Deposit accounts.

25. PETTY CASH

A petty cash fund provides a systematic method for paying and recording out-of-pocket cash payments too small to be made by check. The Agency shall maintain petty cash funds as approved by the board in the homes, the day services and the main office and replenished as needed. All receipts and proof of purchases must be available to the finance department for reimbursement of petty cash.

The E.D. shall maintain control of, and responsibility for, payments disbursed from the Petty Cash fund total Funds should not exceed \$200. The residential houses, Community Services and Day Services shall all have petty cash accounts. Petty cash annual amounts shall be determined by the E.D. and E.D. for each program.

An annual audit of petty cash accounts will be done by the finance assistant.

26. INVESTMENTS REPORTS AND INVESTMENTS POLICY

Investments shall be reported with the monthly financial statements at cost or market value. The E.D. or their designee, with oversight of the Finance Committee, shall review and determine the general investment strategy for all funds.

The philosophy of the Agency's short-term investments is safety of principal and liquidity.

Acceptable investments shall be: Certificates of Deposit and Bankers Acceptances rated A1; Domestic Corporation Commercial Paper rated A1 and/or P1 by two (2) major rating services; all short-term Securities of the U.S. Government or an agency thereof.

The Endowment Fund investment strategy shall be reviewed and evaluated by the Finance Committee annually, to ensure the portfolio's proper diversification, security and return on investments.

All financial institutions shall be selected and approved by the Finance & Legal Committee and must have long-term investment rating of A or higher by Standard and Poor's, or a compatible rating.

27. **INSURANCES**

Reasonable and adequate coverage will be maintained to protect the Agency's interests as well as the Board of Directors and the Agency's employees. The following insurance policies shall be kept on a yearly basis: Commercial Property Contents and Computer Policy, General and Professional Liability Insurance, Directors and Officers Liability Insurance, Employee's Dishonesty Bond Insurance, Employee's Life Insurance, Workers Compensation Insurance, Long-Term Disability Insurance, and Employees Health Insurance.

Insurance Policies shall be carefully reviewed by the E.D. before renewal each year.

28. **BONDING**

All Agency employees shall be bonded through an Employee's dishonesty bond policy. All employees and the board of directors are bonded in the amount of \$150,000. This blanket coverage applies to those who are authorized to handle money in regards to conducting business for the Progress Center, Inc. In addition, the Chairman, Secretary, Treasurer and all Board of Directors shall be bonded by a reputable bonding company.

29. **PROPERTY AND EQUIPMENT**

Property and equipment shall be stated at historical cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. A Depreciation schedule shall be prepared and maintained by the Agency's Head of Finance on an annual basis, taking into consideration the annual equipment inventory. A Property Removal Form shall be required for the removal of the Agency's property, supplies, and/or equipment from the Agency's premises.

30. **EQUIPMENT INSTALLATION**

Purchase, installation and maintenance of telephone equipment, telephone lines, office equipment, computer equipment, etc. shall be approved by or their designee after discussion and approval by the E.D. Staff Members and other managers shall be responsible for receiving and supervising the installation of equipment scheduled for their facility or working area, and for maintaining and protecting the equipment installed in their offices.

31. **DONATED MATERIALS AND SERVICES**

Donated materials and equipment shall be reflected in the Financial Statements at their estimated values measured on the date of receipt. Volunteers donate time to the Agency's Program services on an on-going basis. Other volunteers contribute time and services for Administrative or fund raising activities. Such contributed services are generally not reflected in the Agency's financial statements, since there is no objective way of assessing their value.

32. **CONFIDENTIALITY AND RECORDS SECURITY**

Financial records are restricted materials with limited access. Only the E.D. or their designee and Accountant (or others so authorized) shall have access to financial records (vendor files, checks, journals, payroll, etc.).

33. **DOCUMENT RETENTION**

Financial documents are retained for a period of seven year unless otherwise mandated by Federal or State law.

34. **TAX REPORTING**

The Agency is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code as amended. Accordingly, no provisions for income taxes shall be reflected in the financial statements.

35. ACCOUNTING POLICY

The E.D. oversees the agency's financial status. All accounting duties are split among the staff performing financial duties according to the independent auditor's recommendations for segregation of duties.

36. ANNUAL REPORT

The agency's annual report is available for public review in the fall of each year. It covers the preceding fiscal year from July 1st through June 30th and includes agency goals, brochure, budget, consumer information, narrative, outcomes management report, and staff information.

37. ANNUAL OPERATING BUDGET

The Board shall approve an annual operating budget for the agency. The budget is regulated and controlled by applicable procedures and regulations of the Board and local, county, state and federal principles of reimbursement. While the Board is required to budget for only a 12-month period, longer-term budgeting is desirable and encouraged.

The E.D. serves as the budget director and is supervised by the Board Chairman. The E.D.'s primary responsibilities are preparation, presentation to the Board, and administration of the budget. The annual budget is presented to the Board by the treasurer and the chairman. The Board reviews and amends if necessary and then accepts the budget by a formal motion. The budget is then provided to the appropriate state agencies. In the event changes are required, the E.D. will negotiate with the state agencies in order to resolve issues. Any substantive changes to the original budget will be presented to the full Board for review and approval.

38. NOTIFICATION OF FEES

Each individual or business that we provide a service for will receive an approved copy of the proposal for services, including the agreed upon rate. A copy of each proposal will be kept in the individual's or business's file and will be stamped with the date it was sent to the entity.

39. PAYROLL DEDUCTIONS

The Board authorizes the following bi-weekly payroll deductions:

- a. Dental insurance
- b. Federal withholding taxes
- c. Financial institutions
- d. Health insurance
- e. Retirement
- f. Social Security withholding
- g. State withholding taxes
- h. United Way contributions
- i. Child support

Account numbers must be included with the deduction authorization when presented by the employee or the deduction will not be processed. The agency is not responsible for any lost or stolen account numbers. Changes in deduction amounts may only be done once a quarter. Deduction amounts may not exceed an individual's weekly net pay.

The agency is responsible for the preparation and delivery of funds to the financial institution. Thereafter, it becomes the financial institution's responsibility to distribute the funds appropriately.

Appendix

Effective Systems of Internal Control

General

Internal control can be divided into two areas: accounting controls and administrative controls. Administrative controls deal with the operations of the business, whereas the accounting controls deal with accounting for such operations. Accounting controls should be designed to achieve the five basic objectives:

Validation

Validation is the examination of documentation by someone with an understanding of the accounting system, for evidence that a recorded transaction actually took place and that it occurred in accordance with the prescribed procedures. As systems grow more sophisticated, validation is a built in component whereby the transactions test themselves against predetermined exceptions.

Accuracy

The accuracy of amounts and account classification is achieved by establishing control tasks to check calculations, extensions, and additions and account classifications. The control objective is to be certain that each transaction is recorded at the correct amount, in the appropriate, account, in the right time period.

Completeness

Completeness of control tasks ensures that all transactions are initially recorded on a control document and accepted for processing once and once only. Completeness controls are needed to ensure proper summarization of information and proper preparation of financial reports. To ensure proper summarization of recorded transactions as well as a final check of completeness, subsidiary ledgers and journals with control accounts need to be maintained.

Maintenance

The objective of the maintenance controls is to monitor accounting records after the entry of transactions to ensure that they continue to reflect accurately the operation of the business. The control system should provide systematic responses to errors when they occur, to changed conditions, and to new type of transactions. The maintenance function should be accomplished principally by the operation of the system itself. Control maintenance policies require procedures, decisions, documentation, and subsequent review by a responsible authorized individual. Disciplinary control tasks, such as supervision and segregation of duties, should ensure that the internal control system is operating as planned.

Physical Security

It is important in all business organizations that the assets are adequately protected. Physical security of assets requires that access to assets be limited to authorize personnel. One means to limit access to both assets and related accounting records is through the use of physical controls. Protection devices restrict unauthorized personnel from obtaining direct access to assets or indirect access through accounting records that could be used to misappropriate assets. Locked storage facilities restrict access to inventories, and fireproof vaults prevent access to petty cash vouchers. Transaction recording equipment limits access to assets by limiting the number of employees involved in recording and posting transactions.