NYC
Administration for Children's Services

DRAFT

EarlyLearn NYC

Fiscal Manual

ACS Division of Financial Services

Effective October 1, 2012

Michael R. Bloomberg, Mayor
Ronald Richter, Commissioner

ACS *EarlyLearn NYC* Fiscal Manual

Table of Contents

EARLYLEARN FISCAL MANUAL

INTRODUCTION

The City of New York Administration for Children's Services ("ACS") Fiscal Manual is a set of instructions documenting the applicable policies and procedures for ACS contractors to use in such matters as recordkeeping, bookkeeping, reporting, budgeting, cost allocating, payment, audit and accounting. The Fiscal Manual sets out the policies and procedures ACS requires of all contractors, Board Members, management and financial staff to adhere to. The Fiscal Manual's goals are to document internal controls, as well as to ensure compliance with all applicable Federal, State and City regulations, including OMB Circulars A-87, A-110, A-122, A-133, 45 CFR PART 74, 45 CFR PART 92, 2 CFR 215, 2 CFR PART 220; 2 CFR PART 225; 2 CFR PART 230 and other financial requirements.

Section I: FINANCIAL MANAGEMENT SYSTEMS

In accordance with OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations, contractors must maintain a financial management system that provides for the following:

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

(3) Effective control over and accountability for all funds, property and other assets. Recipients 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 appropriate, financial information should be related to performance and unit cost data.

(5) Written procedures to minimize the time elapsing between the transfer of funds to the contractor and payment to satisfy any accounts receivables.

(6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

(7) Accounting records including cost accounting records that are supported by source documentation.

1.0 Accounting System

Contractors should have accounting systems which outline the methods, procedures, and standards followed in accumulating, classifying, recording, and reporting financial events and transactions. The accounting system should include the formal records and original source data. It should also be able to produce financial information and financial statements.
A contractors accounting system must make it possible both:

(a) to present fairly and with full disclosure the funds and activities of the contractor in conformity with generally accepted accounting principles; and

(b) to determine and demonstrate compliance with financial-related legal and contractual provisions.

1.1 General Ledger

The general ledger contains all of the financial accounts of a contractor; and contains offsetting debit and credit accounts (including control accounts). The general ledger is the core of the contractor's financial records. These constitute the central "books" of the contractors, and every transaction flows through the general ledger. These records remain as a permanent track of the history of all financial transactions since day one of the life of your organization. A contractor's accounting system will have a number of funds. All the entries that are entered (called posted) to these funds will transact through the general ledger account.

The two primary financial documents of any organization are the Statement of Position or the balance sheet and the Statement of Activities or the profit and loss statement. Both of these are drawn directly from the organizations general ledger. The order of how the numerical balances appear is determined by the chart of accounts, but all entries that are entered will appear. The general ledger accrues the balances that make up the line items on these reports, and the changes are reflected in the profit and loss statement as well.

1.2 Fund Accounting

All contractors' accounting system should be organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity having its own assets, liabilities, equity, revenue and expenditures/expenses. The types of funds used are determined by generally accepted accounting principles. The number of funds established within each type is determined by sound financial administration.

Contractors should establish and maintain those funds received by ACS and through sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

Contractors should set up a fund for every funding source they receive from ACS.

There are five categories of funds which ACS will be funding contractors: Child Care Block Grant, Community Development Block Grant, Head Start Grant, and Universal Pre-Kindergarten Grant and City Tax Levy.

1.3 Generally Accepted Accounting Principles for Contractors

All contractors are to adhere to Generally Accepted Accounting Principles (GAAP). GAAP is a uniform minimum standards of and guidelines to financial accounting and reporting. They are the framework within which financial transactions are recorded and reported resulting in financial statements that provide comparability between entities, consistency between accounting periods and reliability for internal and external users of financial statements. Financial Accounting Standard Board (FASB) sets the General Accepted Accounting Principles (GAAP) for Nonprofit Organizations. Contractors should follow FASB announcements in order to ensure their accounting systems are up to date with new GAAP requirements.

1.4 Basis Of Accounting

An entity's accounting basis determines when transactions and economic events are reflected in its financial statements. Listed below is the basis for recording financial transactions. All ACS contractors should follow the accrual basis of accounting.

1.5 Accrual Basis

Under the accrual basis of accounting, a system records financial transactions when they occur, irrespective of when actual cash is received or paid. Revenues are recorded when earned or when the contractor has the right to receive the revenue. Expenses are recorded when incurred. Expenses for which the contractor is liable within the fiscal year are counted in that fiscal year.

1.6 Accounting Calendar

The accounting calendar is a schedule of anticipated dates for financial activities through-out the month. It is important that contractors establish an accounting calendar and adhere to the schedule in order to ensure all financial transactions are appropriately recorded. The Accounting Calendar is divided into two sections:

Management Reports:

- Report Month
- Report Date
- Scheduled Closing Date

Transaction Due Date:

- Departmental Deposits
- Journal Entries
- Interface Billings & Reallocation

1.7 Monthly Close

Every organization should close their financial books every month, produce a trial balance, adjusting entries, closing entries and financial statements.

1.8 Bookkeeping

Bookkeeping is the practice of recording the transactions of a business; financial transactions which are either monetary-cash, or non-monetary such as inventory and the cash equivalent of a volunteer's time. Bookkeeping is one of the functions of the accounting process (see below) and includes the daily recording in the revenue and expense transaction ledgers and the maintenance of the general ledger. Bookkeepers generally maintain all financial records through the trail balance stage of the accounting process. .

1.9 Accounting

Accounting is the bookkeeping methodology involved in creating a financial record of a business transaction. It includes the preparation of statements concerning assets, liabilities (Balance Sheet), expenses and revenue (Income Statement) and operating results of a business. It is the management of assets and financial information.

1.10 Chart of Accounts

Contractors should establish a chart of accounts that lists asset, liability, net asset, revenue and expense accounts used to record financial transactions in the general ledger.

1.11 Bank Accounts

The contractor shall establish and maintain a bank account in a New York Charter Bank located in New York City and/or a bank authorized to do business in New York State to be used solely in connection with funds received from ACS. The contractor should establish one bank account to receive all ACS payments made to the contractor. Contractors can ask for a waiver from this requirement from ACS. This request should be sent to your analysts for review and must be approved by the Assistant Commissioner of Finance. If approved the contractor may use a general bank account or a set of accounts for deposits and disbursements.

The bank account must have at least three signatories with access to the bank account, at least two who are Board Members. The contractor will provide to ACS, immediately upon request copies of all bank records including bank statements and cancelled checks. The contractor will also inform ACS within five business days of any change or substitution of the person authorized by the contractor to receive, handle, or disburse monies.

1.12 Bank Credit Line

ACS encourages all contractors to seek a bank line of credit to fill temporary or seasonal needs. This credit line is generally an unsecured loan made on the basis of the borrower's financial strength. Banks usually require compensation for offering a credit line in the form of balances and/or fees. The interest rate on a loan may be negotiated depending on the level of balances held at the bank.

1.13 Cash Transactions

Some activities of organizations may be most easily handled with cash. Sometimes this may result in large amounts of cash being handled at one time. Some simple procedures can limit the possibility of theft or any accusations of theft:

- Have cash receipts counted and recorded as soon as possible from the time they were received.
- Always ensure there are at least two (2) people present when cash is being handled.

- Once cash has been counted, lock it up in a location that can only be accessed by authorized individuals.
- Make bank deposits regularly to avoid having significant amounts of cash on hand.
- In cases where cash is being distributed, request receipts or have the individuals receiving the cash sign a form stating they have received it.

1.14 Checks

Checks provide an easy to follow paper trail for organizations. One risk with checks is the possibility of forgery. While this risk may be relatively small, the increasing popularity of automated teller machines (ATMs) and the accompanying trend toward less personal banking can make it more tempting for some individuals to attempt to pass forged checks. The following actions can help reduce this risk.

- Keep all blank checks in a secure and preferably locked location.
- Keep signed cancelled checks or check images that are returned from the bank in a secure and preferably locked location.

1.15 Signing Authority

A standard safeguard in a contractors' organization is to require two authorized officers to sign all checks. In many organizations 3 or 4 persons will be authorized to provide the two signatures so that if one person becomes ill or goes on an extended trip the organization always has at least 2 people to sign checks.

This procedure is ineffective if one of the officers signs a quantity of blank checks in advance. While probably well intentioned, this person has abdicated their duty as an officer and director and has put the organizations funds at risk. Signing officers and the entire board should always insist on all checks being completely filled in before anyone signs. Officers with signing authority may also want to verify the checks against the corresponding invoices before signing. Signature stamps should not be used.

1.16 Petty Cash

Petty cash, small amounts of cash available to a contractor for small purchases, should to be managed in the same way as other assets of the contractor. The contractor shall not make expenditures over two hundred and fifty dollars ($250) from petty cash, on any given month.

- **What can the petty cash fund be used for?**
  Petty cash funds are used for paying for small transactions. You can set a dollar limit on transactions to make it easy for employees to remember. For example, any transaction over $25 needs to be in the form of a check or must have a purchase order or requisition, and should not be taken from petty cash.

- **How much money is needed for a petty cash fund?**
  You want a balance between too little (in which case you must replenish it often) and too much (in which case you have the problem of the money disappearing). The amount depends on the volume of transactions in which you use petty cash. A good rule-of-thumb might be that you don't want to replenish any more than twice a month. Trial and error will give you a good idea of how much needs to be in the fund.

- **When should the petty cash fund be replenished?**
  The timing differs, but you should replace petty cash (up to the designated amount) when you think you won't be able to go through a day without a problem.

- **Who has access and responsibility for petty cash?**
  The fewer employees who have access the better, but you should have at least two people. The person who replenishes petty cash should not be the person who inputs the transactions into your bookkeeping program.

- **How should petty cash transactions be recorded?**
  You can record on slips or a listing, whichever is easier. The important thing to remember is that EVERY transaction must be recorded and must include:
    - Date of the transaction
    - Amount of the transaction
    - General description of the transaction ("donuts for office meeting," for example).

  You don't have to record the account number at the time of the transaction. When you replenish petty cash, group transactions by account number and enter them in your accounting system.

- **How do I deal with theft or suspected theft from the petty cash fund?**
  If you suspect an employee is stealing from petty cash, restrict access to the fund and see what happens. If you have proof of theft from petty cash, contact your attorney before you make any accusations or call the police. It is your responsibility as a contractor to set up policies for use of petty cash, to monitor petty cash transactions, and to make sure that employees are using petty cash responsibly.

Section 2 - *EarlyLearn NYC* Financial Requirements

2.0 Budget Requirements

Contractors must develop annual line-item budgets and accounts for all revenues and expenses associated with their *EarlyLearn NYC* contract. Revenues must include not only those received from ACS, but all other funding sources related to the contract. Any surplus revenue, must be reinvested into the program during the fiscal year, based on allowable expenses and subject to ACS approval or returned to ACS.

Expenses associated with the *EarlyLearn NYC* contract must be allowable expenses under the United States Office of Management and Budget (USOMB) Cost Principles for non-Profit Organizations 2 CFR Part 225 (A-87) and 2 CFR Part 230 (A-122).

Revenues and expenses must be recorded in the contractor's bookkeeping and accounting systems. The contractor's systems must be capable of tracking and reporting information that meets Generally Accepted Accounting Principles (GAAP), and auditable under Non-Profit Organizations including the Compliance Supplement USOMB A-133. Annual budgets for audit purposes must include *EarlyLearn NYC*-funded contractor-administered expense; Child and Adult Care Food Program (CACFP) and contractor contributions.

2.1 Line Items

The line-item budget is a financial document that lists how much the contractor will spend on every item that it uses. Cost categories include personal services, operating expenses, and capital outlay. These cost outlays are often further detailed in object codes. For example, personnel expenses can be further separated into salaries, retirement, and health insurance costs. Operating expenses can be subdivided to include such items as office supplies, printing, and utility costs. The cost category capital outlay includes office equipment, furniture and vehicles. The primary orientation of a line-item budget is that of expenditure control and accountability.

The line-item budget is relatively easy to prepare and illustrates how much money is appropriated to specific cost categories. While the simplest budget to prepare, the line-item budget does not provide any information regarding activities and functions of a program. The line-item budget assists contractor understanding how much they are spending on salaries, supplies, and maintenance, but does not reveal how much is being spent on the actual delivery of services. In order to determine the cost of service delivery, expenditures must be re-arranged into programs or activities. There will be entries for each revenue and spending item by fund in the budget. These will usually have number codes, which are part of the accounting classification system. **ACS will be sending contractors a line item budget template at the beginning of the fiscal year which they will be required to submit and return to ACS.**

Each contractor must have a line item budget for each program and the funding source associated with the program. At the beginning of the fiscal year line item budgets from contractors will be sent to ACS for Head Start, Universal Pre-Kindergarten (UPK) and Child Care. The line item budgets for UPK and Head Start will be used to report monthly expenses to ACS. The monthly reporting will then be used by ACS to submit claims to the Department of Education and Health and Human Services for expenses generated by and on behalf of the contractor.

2.2 Basis of Budgeting

The basis of budgeting refers to the conversions for recognition of expenses and revenue in budget development and reporting. ACS requires that all contractors use the accrual basis for budgeting funds. The budget must be fully reconciled to the accounting system at the beginning of the fiscal year, and at the end of the fiscal year. A number of adjustments are made to reflect balance sheet requirements and their effect on the budget. Amounts needed for such long-term liabilities as future payoff of employee vacation is budgeted as they are budgeted as projections and once recognized are adjusted for actual amounts.

Most contractors base new budgets on the adopted final budget from the previous year. They should also review a number of prior years of actual expenditures and revenues to get a sense of the trends that may be affecting the budget. An advantage of looking back at actual spending and revenue and comparing them to historical budgets is that it may reveal mistakes that are recurring year after year. For instance, if a contractor is repeatedly underestimating the growth in employee benefits, a look at the historical variations might reveal the proper rate to apply for current and future years.

A useful companion to the annual budget is a multiyear plan. This projects the effects of the current budget, and future budget and policy assumptions, on future years. Unlike a budget, a multiyear plan is not a binding document. Most likely, significant changes will take place before those future years are actually budgeted. However, a multiyear plan can be very useful in revealing if the local government is on an unsustainable course that may lead to chronic budget problems and the need for large tax increases or sharp budget cuts.

A well-constructed budget will include needed spending and expected revenue. It is best to be conservative in estimating revenue growth and to budget sufficient spending to provide needed services. A certain amount of the budget should be set aside for contingencies (either with a line item, or through the use of fund balances or reserves), to allow for the smooth operation of contractor programs in case of emergencies or minor errors in calculating revenues or expenditures. If this contingency is not used in a given year, it may be rolled into the next year's budget.

A sound budget is also linked to good long-term planning. This is where a well-devised multiyear plan comes in. A budget may include actions that may not have much of an impact in the next year but may have large impacts in future years; the multiyear plan will show this. It will also show other trends that are less evident over a shorter time frame, such as rising debt service or health insurance costs, but have growing impacts over time. Not every contractor will have a multiyear plan, but those that do should make them available to the public.

2.3 Contractor's Budget

Each contractor must have a budget that reflects the various programs it administers. A budget is a financial plan that details the contractor's projected revenues and expenditures for a defined period of time. Contractors typically have operating and capital budgets. An operating budget is a plan of current (annual) spending and the means to pay for it. A capital budget contains long-term spending for the acquisition of assets and the means to pay for them, including borrowing.

The operating budgets of all contractors cover a fiscal year; the operating budget is not just a financial plan, but – once adopted by your contractor's governing board – is a binding legal document that can only be changed through a formal budget process similar to the adoption of the operating budget itself.

Anything that requires resources from the contractor must be paid for out of the budget. Therefore, the budget will contain all of the programs administered by the contractor, and the allocation of resources among these programs will reflect the program commitments and policy choices of the contractor. In this way, the budget is not only the financial plan but also its main policy document.

A contractor will demonstrate its priorities by setting the funding levels for different programs and by allocating the spending within each program area. The budget also shows how the policy commitments of the contractor are constrained by available resources.

Budgets are meant to balance revenues and expenditures, so that the contractor is able to provide needed services with the resources available. However, the reality is that budgets will rarely work out precisely as planned, leading to operating deficits (when expenditures exceed revenues) or operating surpluses (when revenues exceed expenditures.) As long as these deficits or surpluses are minor or intermittent, they do not constitute a material problem for a contractor and should not be cause for concern. It is when there is a persistent pattern of larger surpluses or deficits that there should be concern about the budgeting practices of the contractor.

Adopted budgets should not show deficits or surpluses, since adopted budgets must be balanced. Sometimes an operating deficit is planned when an existing fund balance is used as a one-time funding source for the budget.

2.4 Fiscal Year

The fiscal year is a twelve (12)-month period over which a contractor budgets its spending and reports the revenue it receives. All ACS contractors will have a fiscal year that starts July 1 and ends in June 30th which corresponds with the City fiscal year.

Since *EarlyLearn NYC* contracts begin October 1, 2012, the first fiscal year will be comprised of nine (9) months ending on June 30, 2012. Audits will be done from an October 1, 2012 to June 30th time period and in subsequent years from July 1 through June 30th, 2013.The last audit will be for the period covering July 1, 2016 through September 30, 2016.

Beginning with Fiscal Year 2014, the Head Start program year will coincide with the NYC Fiscal Year of July 1 through June 30.

2.5 Funding Sources

Listed below are the various funding/revenue sources which support *EarlyLearn*. These funding sources have their own reporting requirements which ACS and contractors must adhere to in order to receive the revenue. The funding may change from year to year which may effect the rate provided to each contractor.

Community Development Block Grant (CDBG): CDBG is a flexible program that provides communities with resources to address a wide range of unique community development needs.

Child Care Block Grant (CCBG): CCBG assists low-income families in obtaining child care so they can work or attend training/education. The program also improves the quality of child care, and promotes coordination among early childhood development and afterschool programs.

Universal Pre-Kindergarten (UPK): The New York State funded UPK program provides a nurturing environment where children's natural curiosity is used as a springboard to learn skills that are necessary for success in school. The UPK program funds these services from September through June the year before a child starts kindergarten.

Head Start Funding: Provides comprehensive education, health, nutrition, and parent involvement services to low-income children and their families.

New York City Tax Levy (CTL): This represents funds that come from real estate related taxes, income based taxes, consumption and use taxes and other taxes which are used to support child care subsidies.

The contractor may experience funding adjustments due to changes from any of the above funding sources.

2.6 COST ALLOCATING PLANS

2.6.1 Allocating Plan for Direct and Indirect Costs

ACS has oversight and regulatory responsibility to assure that funded organizations meet federal, state and city regulations. The purpose of this section is two-fold: (1) to provide information and guidance to all nonprofit organizations that have contractual agreements with ACS, and (2) to instill the importance of developing a plan to cost allocate between direct/programmatic indirect/administrative costs. Cost allocating between direct and indirect identifies how money is spent in connection with a program and how much is spent to administer it. This cost allocating plan should have acceptable methodologies to support the differences between these cost categories.

ACS is aware that many nonprofit organizations enter into additional contractual agreements with other funding sources. These funding sources have their own programmatic and administrative requirements. A common element to all of these funding sources is the need to have a plan that allocates direct and indirect costs. All organizations are required to have an approved direct and indirect cost allocating plan which reflects how these costs are distributed. The direct and indirect cost allocating plan can be a stand-alone plan for a single-source funded program or it can be incorporated as the foundation of a Cost Allocation Plan (CAP) for an organization with multiple funding sources.

All nonprofit organizations must allocate between direct and indirect costs. This requirement is based on contractual agreements with the ACS as well as federal regulations of Department of Health and Human Service and administrative requirement of OMB Circular No. A- 87 (Cost Principles for State, Local and Tribal Governments), which determines allowable costs and OMB Circular No. A-122. Cost Principles for Nonprofit Organizations), which requires nonprofit organizations to report direct and indirect cost. This information is also a reporting requirement of OMB Circular No. A-133 (Audit of States, Local Governments, and Nonprofit Organizations), which stipulates the guidelines for auditing the above costs; as well as an annual report to the Internal Revenue Service through Form 990 and State Charitable 500.

The 45 CFR 1301.32 stipulates the Limitation on cost of development and administration of a Head Start program. It is important to understand that allocating between direct and indirect cost is different than a Cost Allocation Plan (CAP). A CAP is a written account of methods used by an organization to allocate costs to its various funding sources. It is the process of assigning to two or more programs the costs of an item shared by that program. The goal is to ensure that each program bears its fair share and only its fair share, of the total cost of that item. The direct and indirect cost allocating plan will be incorporated into the CAP along with the methodology that supports it.

Any nonprofit organizations that are receiving only ACS funding (e.g., Head Start, CACFP and ACS/DOE intra-city UPK funding) will be required to submit a cost allocating plan which delineates direct and indirect costs; however, will not be required to submit a CAP, if they represent a single-source funded programs.

In order to report these expenses in functional classifications, "program expenses–direct cost, management and general expenses; administrative in nature–indirect cost," a methodology to allocate direct and indirect costs is needed. This must be done for all programs regardless of the number of funding sources (single or multiple). In order to recover both direct and indirect expenses, a non-profit organization needs a way to allocate its direct and indirect costs to specific programs for reimbursement of these costs.

As part of an audit of financial statements, an auditor will investigate to see whether organizations have allocated costs between direct and indirect costs. Plans must be presented to the auditor. A direct and indirect plan provides the auditor with a clear description of how this is accomplished. The auditor will analyze the methods used to allocate costs between the direct and indirect and determine their adequacy and appropriateness. If the auditor is convinced that the methods and their application have resulted in the reasonable allocation of costs, no further action is necessary, as there is no audit finding in contractor's cost allocating plan. However, if the methods are flawed or not correctly applied, costs that have been inappropriately applied could result in an audit noncompliance and disallowed.

2.6.2 Cost Allocation Plan

A Cost Allocation Plan (CAP) is used to manage how resources are shared and accounted for among the different funding sources. It is the process of assigning two or more programs the costs of an item shared by the program. The goal is to ensure that each program bears it fair share and only its fair share, of the total cost of the item. The plan is the roadmap for reporting costs items. Regular reporting should incorporate and reflect the structure of the CAP.

A CAP is required based on your contractual agreement with ACS as well as federal regulations of Department of Health and Human Services and administrative requirement of OMB Circular No. A- 87 (Cost Principles for State, Local and Tribal Governments), which determines allowable costs and OMB Circular No. A-122 (Cost Principles for Nonprofit Organizations) which requires nonprofit organizations to report direct and indirect costs. This information is also a reporting requirement of OMB Circular No. A-133 (Audit of States, Local Governments, and Nonprofit Organizations) which stipulates the guidelines for auditing the above costs; as well as an annual report to the Internal Revenue Service through Form 990 and State Charitable 500 report. If you need any assistance on producing this CAP, please contact your analysts for assistance.

The following funding sources should be cost allocated in order to maximize all expenses; Child Care Block Grant, Community Development Block Grant, Head Start, UPK, Child and Adult Care Food Program (CACFP), City Tax Levy and other funding.

2.7 Administrative Cost Limitations

The purpose of this requirement is to ensure funds are expended by contractors primarily for the delivery of services and not for excessive administrative costs. The regulation addresses three types of costs: program costs, administrative costs and dual benefit costs. All costs in a contractor program must be categorized as one of these costs.

2.7.1 Development and Administrative Costs

Administrative costs cover the organization-wide management functions of accounting, budgeting, coordination, direction, and planning, as well as the management of payroll, personnel, property and purchasing. Such costs can be for either personnel or non-personnel functions.

Personnel costs include salaries and fringe benefits for positions such as executive director, fiscal officer/staff accountant, personnel officer, payroll/insurance/property clerk, secretary/administrative assistant/receptionist in the administrative office, and staff accountant. In addition, administrative personnel costs include the janitor/custodian for administrative office space and costs associated with volunteers carrying out administrative functions. Expenses for these staff such as travel, per diem, training, and transportation also would be considered as administrative costs.

Non-personnel costs include expenses related to audits, bonding, and accounting and payroll services. Also, to the extent they support administrative functions and activities, expenses for insurance, supplies, office furniture and equipment, copy machines, postage utilities and occupying, operating and maintaining space also are administrative costs.

2.7.2 Program Costs

Program costs cover expenses directly related to (1) the direction, coordination or implementation of component services as well as (2) the delivery of such component services. Program components include education, disabilities, health, nutrition, parent involvement, social services and transportation. The provision of program component services, training and transportation for staff, parents and volunteers are program costs. Such costs can be either personnel or non-personnel costs.

Personnel costs that are classified as program costs include salaries and fringe benefits for the program component coordinators and component staff in the delivery of services. Thus personnel costs for the positions of teachers, cooks, parent involvement aides and bus drivers are program costs. In addition, program personnel costs include the janitor/custodian and transportation staff involved in program component efforts and the costs associated with parent involvement and component volunteer services.

Non-personnel costs include allowable costs of program staff travel, per diem and transportation, training, food center/classroom supplies and equipment, parent activities funds, liability insurance, and the occupation of program component space, including utilities. [The] purchase of a school bus is a programmatic cost.

Labeling a personnel officer as a "program officer," or a staff accountant as a "program manager," does not make it a programmatic position or a programmatic cost. They are still administrative staff and must be classified as such.

2.7.3 Dual Benefit Costs

All costs are initially classified as administrative, programmatic or dual benefit. Costs initially classified as dual benefit costs must be further classified as administrative or programmatic according to the percent of the cost that is dedicated to each function.

Dual benefit costs benefit both the administrative functions and the program components. In such cases, grantee agencies must identify and properly allocate such costs between administration and program service delivery. Dual benefit costs can be for either personnel or non-personnel costs.

Not all administrative costs or program costs can be classified as dual benefit costs. For example, the grantee executive director is 100 percent administrative and a teacher is 100 percent program. They cannot be classified as a dual benefit cost.

2.8 Allocability and Allowability of Costs

Contractors should have guidelines in their financial policies and accounting procedures that indicates what cost are considered allowable and unallowable under the terms and conditions of the appropriate funding source; what and how costs are allocated between direct and indirect; who approves of these costs; and what is the procurement method to obtain these goods and services. These procedures can provide an auditor with a clear description of what costs are considered allowable, how they are allocated between direct and indirect, who approves of these costs, the procurement method and how they are charged to the appropriate funding source. Cost considered allowable might be disallowed if they are not specifically identified in financial policies and written accounting procedures. Once these costs have been articulated in financial policies and written accounting procedures they should also be codified in the chart of account.

Once a list of the items has been established which are considered allowable and unallowable and allocated, an approval process should also be articulated regarding the purchase of goods and services. Set dollar thresholds and appropriate levels of approval should be defined before goods and services are purchased. A procurement method should also be defined that outlines the various methods that can be used to purchase goods and services and the dollar threshold in which certain purchases would follow.

The allocability and allowability of costs is determined in accordance with provisions in of OMB Circular A -122, "Cost Principles for Non-Profit Organizations" and Head Start 2 CFR Part 230 - Cost Principles for Non-Profit Organizations. Listed below is a summary of Circular A - 122 provision and attached are sections of 2 CFR Part 230 which should be part of your fiscal policy and written accounting procedures.

Basic Considerations

1. **Composition Of Total Costs**.
   The total cost is the sum of the allowable direct and allocable indirect costs less any applicable credits.

2. **Factors Affecting Allowability Of Costs**.
   To be allowable under an award, costs must meet the following general criteria:

   a. Be reasonable for the performance of the award and be allocable thereto underthese principles.

   b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.

   c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.

   d. Be accorded consistent treatment.

   e. Be determined in accordance with generally accepted accounting principles (GAAP).

   f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.

   g. Be adequately documented.

3. **Reasonable Costs**

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by the awarding entity. In determining the reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.

c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.

d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.

4. **Allocable Costs**

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to an award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

(1) Is incurred specifically for the award.

(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or

(3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.

5. **Applicable Credits**

The term applicable credits refers to those receipts, or reduction of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing or received by the organization relate to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refunds, as appropriate.

In some instances, the amounts received from the Federal Government to finance organizational activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the organization in determining the rates or amounts to be charged to Federal awards for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds.

6. **Advance Understandings**

Under any given award, the reasonableness and allocability of certain items of costs may be difficult to determine. This is particularly true in connection with organizations that receive a preponderance of their support from the awarding entity. In order to avoid subsequent disallowance or dispute based on unreasonableness or non-allocability, it is often desirable to seek a written agreement with the cognizant or awarding agency in advance of the incurrence of special or unusual costs. The absence of an advance agreement on any element of cost will not, in itself, affect the reasonableness or allocability of that element.

2.9 Limitation on Use of Funds

Although the listing below on the limitation on use of funds is not all inclusive it does highlight some of the major items. Any questions regarding this issue should be directed to your analyst.

No funds shall be spent for any of the following:

- Any service not necessary and actually incurred in the performance of the program
- Purchase of property; unless approved by the funding source
- Cost of meals for personnel, except in travel status or except as otherwise specifically authorized by ACS
- Alcoholic beverages
- Bad debt
- Contingencies
- Contributions/donations
- Prosecution of claims against the City, State and federal governments.
- Entertainment
- Fines and penalties
- Fundraising and investment management costs
- Losses that could have been covered by insurance
- Interest on bad debts
- Late fees
- Overdraft charges, etc.
- Lobbying costs
- Donations to others
- Losses on other awards
- Personal memberships
- Organizing and reorganizing costs
- Grant writing costs
- Public relations

- Loans to Board Members
- Payment to Board Members, other than expenses incurred in attending Board meetings.

2.10 Common Reasons for Disallowing Costs

- Lack of documentation.
- Credit not handled correctly.
- Non-compliance with procurement requirements.
- Improper dispersal of Cost of Living Adjustments (COLA).
- Claiming a cost as both direct and indirect.
- Charging a federal grant differently than other funds.
- Written cost allocation plan and/or indirect/direct plan not updated or on file.
- Cost not allocated or allocated properly.
- Year-end spending issues.
- No formal system for recording obligations.

2.11 Cost Limitations

2.11.1 Head Start Administrative Cost Limitations

The Head Start Act in Section 644 (b) and Head Start regulation 45 CFR 1301.32 limit the amount of funds that may be charged as development and administrative costs to 15% of the total costs of the program.

2.11.2 Child Care Administrative Cost Limitations

The amount of funds that may be charge by Child Care programs as development and administrative costs is limited to 25% of the total cost of the program.

2.12 Cost Of Living Adjustments (COLA)

Cost of Living Adjustments (COLA) if provided by the various funding sources will be adjusted in the rate being paid to contractors. Head Start and Dual Funded contractors must follow all expense requirements outlined in Head Start funded COLA grant awards.

2.13 Contractor's Contribution

ACS will fund *EarlyLearn* programs up to a maximum of 93.3% of the approved budgeted cost of the total operations of all program models and contractors must contribute a minimum of 6.7%, for all models except Head Start which requires a 20% non-Federal match. Contractor contribution should cover the program costs associated with meeting the service requirements and not supplement them. Contractor contribution must meet the criteria for the allowability, allocability and the valuation of the source of contribution. This contribution should not have any strings attached to it, where the contractor benefits personally from the contribution.

Costs paid centrally by ACS such as workers compensation and general liability, parent/caretaker fees collected for Family Child Care/Group Family Day Care and/or Center-based Child Care, CACFP revenue may not be included in the contractor contribution.

Contract contribution must be met within the first fiscal year of the contract and within every fiscal year thereafter. If not met in the first year the contractor will be placed under a corrective action plan. The corrective action plan will be administered and monitored by ACS monthly. The second year of the contract the contractor may be under a corrective action plan and within that time frame if the contractor has not shown any improvement at the start of the third year of the contract a recommendation may be to terminate the contractor's contract.

2.13.1 Child Care Contractor Contribution

Contractor contribution can be in the form of cash and non-cash contributions and is expected to fund allowable costs. Third party in-kind contributions shall count toward satisfying the contribution if the party receiving the contribution were to pay for them. There has to be written proof of the cash donation and when it was received.

The contractor's contribution can also take the form of real property, equipment, supplies, donated food, administrative services and expendable property. Non-cash facility rental expense cannot be considered contractor contribution.

Listed below are examples that may comprise the contractor's contribution:

- Cash
- Marketable securities.
- Donated land, building and equipment where the title passes to the contractor.
- Time donated by Board Members on Management Activities.
- Donated supplies (fair market value).
- Donated food (fair market value).
- Administrative services (Bookkeeping, custodial, and cooking services).
- Donated health insurance or pension costs.
- Time donated by employees and volunteers.
- Professional development services.
- Tuition paid by third party.
- Transportation costs.
- Equipment or space loaned by third party (fair market value).
- Equipment or space loaned by contractor (value based on depreciation or use allowance, taxes, insurance etc.).

Costs paid centrally by ACS, fees collected from Family Child Care and/or Group Family Child Care home providers, CACFP revenue, and parent fees for Child Care eligible children may not be included in the contractor contribution.

2.14 Head Start Reporting Requirements

If the contractor receives Head Start Grant funding under its *EarlyLearn NYC* contract with ACS, the contractor is required to provide information annually to ACS. This information will be incorporated in ACS's annual application submission for Head Start funds to the U.S. Department of Health and Human Services, which may be accepted or rejected in accordance with the law, and regulations, e.g., the Head Start Act and the Head Start Performance Standards. The information the contractor must submit to ACS will be incorporated in a monthly financial report. The format and required data to be included in the monthly financial report will provided to all contractors in the month of October.

2.15 Head Start Non-Federal Match

Head Start programs require a 25% in-kind non-Federal match of Head Start Funding. The 6.7% contractor contribution is a subset of the non-Federal match. UPK is funded by New York State and can be budgeted as a contribution to the contractor's Head Start non-Federal match requirement as well as dually eligible children. Listed below are examples of the Head Start non-Federal match.

- Cash
- Marketable securities.
- Donated land, building and equipment where the title passes to the contractor.
- Time donated by Board Members on Management Activities.
- Time donated by Policy Council Members on Management Activities.
- Discounts or reduced rates for Head Start Programs that are not normal business practices (The difference between the reduced rate or cost and the standard rate).
- Time donated by employees.
- Professional Development services.
- Tuition paid by third party.
- Time spent by parents who volunteer at the Head Start center (reasonable value for services performed, classroom aide).
- Transportation costs.
- Funds raised by parents.
- Equipment or space loaned by third party (fair market value)
- Equipment or space loaned by contractor (value based on depreciation or use allowance, taxes, insurance, etc.).
- Donated supplies (fair market value).
- Donated clothing. (fair market value).
- Donated food (fair market value).
- Administrative services (Bookkeeping, custodial, and cooking services).

None of the above may be included as part of a match being used for any other Federally assisted project or program. While ACS encourages all contractors to enrich their programs through the greatest amount of in-kind and cash goods and services possible, no Head Start or dually funded contractor is required to contribute more than 25% non-Federal match of Head Start funding. If you have any questions on non-Federal match and/or what is and is not allowable, please contact your analyst.

2.16 Child and Adult Care Food Program (CACFP)

All contractors are required to participate in New York State's administered CACFP program. The contractor's CACFP funding is the primarily funding for child nutrition expenses. **CACFP revenues cannot be counted towards contractor contribution or toward the Head Start non-Federal match requirements.**

CACFP is a federally-funded program administered by States. CACFP provides nutritious meals and snacks to infants and children as a regular part of their day care. A variety of public or private nonprofit child care centers, Head Start programs, outside-school-hours care centers, and other institutions which are licensed or approved to provide day care services participate in CACFP. For-profit centers that serve lower income children may also be eligible. CACFP reimburses centers at free, reduced-price, or paid rates for eligible meals and snacks served to enrolled children, targeting benefits to those children most in need. Independent centers and sponsoring organizations enter into agreements with their administering State agencies to assume administrative and financial responsibility for CACFP operations.

Contractors must use CACFP funds to fully fund the following expenses in the following priority order:

(a) Food and food related supplies for three child meals daily,

(b) Nutritional service related custodial supplies,

(c) The salaries and contractor-administered fringe benefits of cooks and cook helpers,

(d) The annual uniform expense of cooks and cook helpers,

(e) The nutritional service allocated portion of the salaries and contractor-administered fringe benefits of custodians and custodian helpers,

(f) Staff training pertaining to CACFP and food service,

(g) The nutritional service allocated portion of the salaries and contractor-administered fringe benefits of bookkeeping staff, and

(h) The nutritional service allocated portion of the postage, office supplies and audit services

(i) The purchase of equipment where possible.

2.16.1 Child Care Centers - CACFP

Eligible public or private nonprofit centers, outside-school-hours care centers, Head Start programs, and other institutions which are licensed or approved to provide day care services may participate in CACFP, independently or as sponsored centers. For Contractors with programs that are for profit centers (or have for profit centers under their administration), reimbursement from CACFP for meals served in months when twenty five percent (25%) of enrolled children or twenty five percent (25%) of the licensed capacity, whichever is less, receive subsidized tuition payments for child care services or are eligible for free and reduced price meal reimbursement. Meals served to children are reimbursed at rates based upon a child's eligibility for free, reduced price, or paid meals.

2.16.2 Family Child Care Homes - CACFP

If the contractor has a Family Child Care Network ("FCC Network"), the contractor serves as the administrator of CACFP for its family child care or group child care home providers ("FCC Network provider(s)") and is responsible for ensuring FCC Network providers are participants in CACFP. If the FCC Network contractor chooses, it may have its FCC Network provider(s) sign an agreement(s) with a sponsoring organization to participate in CACFP. Reimbursement for meals served in child care homes is based upon eligibility for tier I rates (which targets higher levels of reimbursement to low-income areas, providers, or children) or lower tier II rates.

2.17 Child Care Services Weekly Fees

The weekly fee for Child Care services in accordance with New York State regulations and ACS policies, Please see 4.10 for the maximum *EarlyLearn* rates.

2.17.1 Parent/Caretaker Fees

ACS sets a weekly fee for Child Care services (Center-based and FCC Network providers) in accordance with New York State regulations. ACS also advises the contractor of the amount of the fee to be charged the parent/caretaker of each enrolled child. ACS will advise the contractors when fees change.

The contractor must collect parent/caretakers fees weekly in advance for children whose program eligibility requires parent contributions. Contractors are required to have a parent/caretaker fee collection policy. This policy must be shared with all fee paying parents/caretakers. Parent/caretaker fees are billed and collected in advance of service. It is the responsibility of the parent/caretaker to pay the fee and the contractor to collect the fee. The fee is revenue which is essential to the operation of the contractor's program(s).

All payments a contractor receives from ACS are net of parent/caretaker fees. Parent/caretaker fees are the responsibility of the contractor and must be collected within ACS's fiscal year.

All fees must be paid by money order and not in cash or check. In order for parents to remain in the program they must pay their fees when due. Parents who fall behind on their payments are encouraged to work out a payment plan with the contractor that will pay off the debt in a reasonable period of time. Parents must comply with the provisions of their repayment plan (which means that you must never be late with either their current parent fee or the payment on their repayment plan). The contractor may pursue collection of unpaid balances, including pursuing payment through legal action, if necessary.

Contractors should inform parents that all parent fees will be collected by money order. No cash or personal checks may be collected from parents. If the contractor chooses to do so they can arrange with a bank to accept credit card payment as parent fees. Parents should be given a receipt with indicates that payment was made for parent fees. The receipt should indicate the week they are paying for and the receipt should indicate who collected the fee, it should be printed and signed. All funds collected should be deposited in the contractors' bank daily and should be recorded as revenue in the appropriate account in the general ledger.

2.18 Private Pay Funding

ACS encourages the integration of fee paying children with ACS subsidized children. Taking on fee paying families would have a different fee schedule than what ACS subsidized children are contracted for. We discourage separation of children by income.

A good business plan that outlines the organizations financial model, projected expenses and revenues, is the first step in this process. A key component of your plan is determining the amount and source of the initial investment capital along with ongoing capital for the day-to-day running of the day care. A sound business plan is necessary to get a bank loan or even a government grant. The plan should also include a marketing strategy for getting parents to sign-up their children in your program.

2.19 Board Responsibility

All revenue received from private pay is the property of the Board of Directors (The Board). As such, The Board is responsible for the accounting of these funds. Any revenue generated by such fundraising must be used in ways that are consistent with the contractor's mission. The expenses and revenue generated from private pay fundraising are subject to the same requirements as expenses of any other grant funds. Contractors may not use revenue for purposes that they would not otherwise be allowed to charge to their ongoing contract with ACS or any other entity.

2.20 Recording of Revenue and Expenses

A separate fund/account in the general ledger should be set up in order to keep track of all the transactions regarding all private pay expenses and revenues. These funds must also be kept in a separate bank account and not co-mingled with other funds received from ACS or any other entity.

Revenue collected from private pay can either be classified as unrestricted or temporarily restricted funds. How the funds are raised will dictate how these funds will be classified. If there is a time frame in which funds fundraising efforts have to be spent and they are for a specific purpose they should be recorded as temporarily restricted funds. If the funding does not meet any of these requirements then these funds should be classified as unrestricted.

2.21 Reporting of Revenue

This revenue should be reported as part of the contractor's audited financial statements, IRS 990 and Charitable 500 documents.

ACS is willing to assist any contractor in developing this model, if you need assistance with this please contact your budget analysts.

2.22 Termination of a Head Start or Dual Funded Contract

If a Head Start contractor is terminated, the contractor has the right to appeal this decision to ACS as well as Federal Head Start Administration.

Section 3 - Financial Reporting Requirements

ACS contractors are to make the following reports available upon request for ACS review:

- Contractor Financial Policy and Procedures Manuals.
- Cost Allocating Plan: Direct/Indirect.
- Cost Allocation Plan.
- Statement of Activities (consolidated) showing budget to actual information.
- Departmental Income and Expense Statement showing budget to actual information.
- Narrative report including tax and financial highlights, important grants received, recommendations for short term loans, or other means of managing cash flow.
- Fundraising Reports; actual vs. projections for donations; status report on all foundation proposals.
- Cash flow projections for the year.
- Payroll tax reports.
- Fee for service report showing number of fee-paying clients and revenue against projections.
- Annual Federal forms, including IRS 990 and Schedule A; Charitable 500 Report
- Draft financial statements for year: Statement of Activities; Statement of Position; Income Statement for each program.
- Audited financial statements for the entire organization, including Statement of Position, Statement of Activities, Statement of Cash Flows, and Statement of Functional Expenses.
- Management letter from the auditor.
- Governing Board's Minutes or Committee Minutes.

Additional financial statements and/or documents may be requested by ACS from time to time.

The following are reports which have to be submitted to ACS on a monthly basis:

- UPK monthly expenses
- Head Start funded monthly expenses
- Trail Balance must accompany monthly expense report.
- Head Start Non-Federal match expenses
- Contractor contribution.

Section 4: Payment

Payment for all contractors will be based on actual enrollment and/or attendance reported by contractors and on applicable program rates, and not on actual expenses incurred in any one month. ACS will issue contractors a payment based on the applicable program rates multiplied by the number of children reported enrolled or in attendance in the contractor's program(s) each month less any offsets for each month. Offsets include, but are not limited to, parent/caretaker fees as described on page [31] above and/or sublicensing fees for the use of City leased or City owned facilities not directly related to the services provided in the contractor's *EarlyLearn* contract with ACS. ACS may recoup cash advances made prior to a service period. ACS may also recoup revenues that exceed expenses in a prior Fiscal Year.

The maximum number of children the contractor is funded to serve under its contract with ACS for *EarlyLearn* NYC is referred to as the "contracted capacity". ACS will not fund the contractor for children in excess of the contracted capacity.

The total payment made to the contractor may vary based on reconciliations and adjustments made by the various funding sources, including, but not limited to, the Head Start Grant, the Child Care Block Grant and UPK enrollment reconciliations by DOE.

4.1 Additional Payments

Daily rates shall remain the same during each Fiscal Year but may change due to COLA increases, and funding source availability. From time to time, in ACS's sole discretion, there may be additional rate add-ons or lump sum payments for the Contractor's program(s) or to supplement the costs outside of the contractor's core program services.

Rates are specific for contracted age, eligibility category and service setting as set forth in the contract budget. For payment purposes, service days are defined as enrollment for center-based service settings or attendance for home-based service settings.

Table 1: Monthly Rate Example

SLOTS	DAYS IN A MONTH	RATE	TOTAL
100	**21**	**$44.66**	**$93,786.00**

Offsets include parent fees due for children whose eligibility category requires parent contributions, and offsets for occupancy costs for usage of vacant classrooms in City Owned/Leased buildings not related to an *EarlyLearn* contract.

4.2 Fiscal Agent Disbursement of Funds to Contractors

Payment by Fiscal Agent

Fiscal agents may be used if ACS determines that the contractors' financial infrastructure cannot provide ACS with the assurance that payroll, payroll taxes, rent and utilities are being paid on time. A fiscal agent and ACS staff will ensure that these items are paid on time. A fiscal agent will receive funds from ACS on a monthly basis and upon ACS instructions will pass on these funds to the contractor with instructions on what to pay and when. ACS staff will monitor all transactions made by the contractor to ensure that all payments are made.

4.3 Contract Budget/Rate Modifications

The Daily Rates and the amount not to exceed the "contract budget" Agreement may be amended or modified by the ACS to reflect funding source modification which can be additional or less funding in accordance with terms of this Agreement and the requirements of various funding sources, including, but not limited to, the Head Start Grant and UPK enrollment reconciliation by DOE. ACS shall not pay the Contractor for any child not enrolled and/or in attendance in accordance with this Agreement and ACS Policies. The Contractor may not request modifications to the contract budget.

4.4 Supplemental Payment to the Rate

The each Fiscal Year's daily rates will not change, unless there is an increase of decrease in funding provided by ACS' various sources. However, if there is funding available and a provider request for funding for the following items listed below there will be a separate add on rate to cover those requests.

The following are some items which can be part of the supplemental payment:

- **Purchase of air conditioners**
- **Purchase of a new doors**
- **Purchase of new windows**
- **Purchase or repair of a roof**
- **Purchase or renovation of a play area or equipment**
- **Renovations of a classroom**
- **Purchase of refrigerator or other meal preparation equipment**
- **Upgrade fire and emergency equipment including ANSUL fire suppression systems.**

Contractors can submit requests for other related equipment and renovation purchases to their assigned budget analysts. The request should also be sent to Facilities who will determine the necessity of these purchases and can assist with the procurement process.

4.5 Service Days

The maximum daily rates for each child age group, program model and service setting are based on a two hundred and sixty one (261) service day year for fiscal year 2014. The number of service days in a year may vary from 262 to 260, depending on whether the year is a leap year and which day of the week January 1st lands on. The annual number of service days is set forth on each contractor's contract budget. Services days also include child vacation days within the New York State maximum allowable absences, certain holidays and twelve (12) professional development days for center-based staff and 6 professional development days for Family Child Care Network providers

For calculation of the total budget amount, service days are the weekdays in the calendar year. Because the number of service days in any calendar year may vary, rates shall be adjusted accordingly in fiscal years when the number of service days is higher or lower than 261 in order to keep the annual *EarlyLearn* budget constant. In addition, from time to time there may be additions to the rates including, but not limited to increases such as COLA or decreases depending on the amounts allocated by various funding sources. Rates for each eligibility category in any given year multiplied by the service days in that year and the number of children in each eligibility category will not exceed the total budget amount.

For contractors with Child Care, Head Start and/or Dually Eligible center-based programs, a service day(s) is defined as the day(s) a child is enrolled in the contractor's program. Head Start program(s) must be open a minimum on 8 hours per day while Child Care and Dually Eligible programs must be open a minimum of 10 hours per day.

For Family Child Care Network contractors with providers who have Group Family Child Care Homes or Family Child Care Homes, service day(s) is defined as the day(s) a child actually attends the contractor's program(s) including allowable absences (see 4.11).

4.6 Facility Rate Add-on

An additional rate, referred to as the "facility rate add-on" will be added to the daily rate for children served in a center-based setting where the Contractor's *EarlyLearn* program(s) are in facilities that are not City owned or City leased facilities and the Contractor leases, licenses or owns such facilities. If the Contractor is operating an *EarlyLearn* NYC program in a City owned or leased site(s), the Contractor shall not receive a facility rate add-on to the daily rate because the City pays the cost of those facilities directly. The contract budget will state whether or not the Contractor's program facility(ies) are City owned or lease facilities and will indicate if the Contractor is entitled to a facility rate add-on. The facility rate add-on is as follows for Head Start Centers, Child Care Centers and Dual Eligibility Centers:

Table 2: Maximum Facility Add-On Daily Rate by Eligibility Category

Eligibility Category	***Service Setting***	***Child Age***	***Maximum Daily Rate***
Child Care Only	Child Care Center	All ages	$ 2.34
Head Start Only	Head Start Center	Pre-School	$ 3.55
Head Start/Child Care Dual Eligibility	Dual Center	All ages	$ 3.11

4.7 Start Up Funding

If the Contractor is awarded start -up funding, it shall be for Center-based Infant and Toddler classrooms only, up to a maximum of fifteen thousand dollars ($15,000) per classroom for eligible items up to that maximum amount. Only the following items will be eligible for start-up funding:

(1) Classroom furniture and equipment;

(2) Age appropriate playground equipment; and

(3) Cosmetic repairs, such as replacing ceiling tiles, light fixtures, and lead-free, non-toxic paint.

Contractor funds will be disbursed at the beginning of the Fiscal Year 2013. Start-up award sites and funding can be found in Appendix C of the ACS contract.

4.8 Invoices

Other than the expense for start-up awards (see 4.8), ACS will not accept any invoices for reimbursement for actual expenses incurred since payment will be based on enrollment/attendance and rates as explained in the previous paragraph.

However, ACS will expect all contractors to submit monthly expense reports for Head Start, UPK and Child Care expenses in order to submit those expenses for claims to DOE and Head Start and for auditing and reconciliation purposes at year end and otherwise as needed. If these monthly expense reports are not received by ACS in a timely fashion, funding for the contractor's program(s) will be in jeopardy.

4.9 Advance Allocation

ACS may make an initial monthly advance allocation(s) of based on the number of service days in the first months of the first City fiscal year of the *EarlyLearn NYC* contract at the sole discretion of ACS. Thereafter, in subsequent years, ACS may choose to make advances of the number of services days in the first months at the beginning of each City fiscal year or thereafter at the sole discretion of ACS. The advance allocation shall be determined solely by ACS and subject to review and approval by the City.

The advance allocation must be deposited by the contractor in its bank account. Any uncommitted funds determined after the contractor's completion of its annual financial statement shall remain and be the property of ACS and these funds shall be returned to ACS. Uncommitted funds are the difference between the total amount of expenditures and the total amount of allowable expenses.

4.10 *EarlyLearn NYC* Rates

Maximum daily rates vary by child age, eligibility category and service setting. Rates are generally based on a 261 service day year. Rates for any given year multiplied by the service days in that year will not exceed the maximum annual funding. The maximum daily per child model rates are as follows:

Table #3: Maximum Daily Rate per Child Model (*does not include facility add-on rates*)

Eligibility Category	*Service Setting*	*Child Age*	*Maximum Daily Rate 261 Day Year*
Child Care Only	Child Care Center	Infant	$85.98
		Toddler	$ 65.34
		Pre-School	$ 41.16
	Group Family Home	Infant	$ 41.66
		Toddler	$ 39.06
		Pre-School	$ 32.86
	Family Home	Infant	$ 34.86
		Toddler	$ 32.86
		Pre-School	$ 32.86
Head Start Only	Head Start Center	Pre-School	$ 49.11
Head Start/Child Care Dual Eligibility	Dual Center	Pre-School	$ 46.55

4.11 Maximum Number of Absences

Payment for temporary absences from child care and head start are allowed up to 12 days in any one calendar month; provided that such absence may total no more than 12 days in any three month period or total 24 days in any six month period.

4.12 Reconciliation

On a quarterly basis, ACS shall reconcile the amounts paid to the contractor (based on the Daily Rates and any other applicable payments such as the start-up funds, facility rate add-on, advance payments, and additional payments) with the allowable expenses incurred by the contractor as stated in the Monthly Financial Reports. The goal of this reconciliation is to determine if the contractor is either overspending or under spending the revenue received on a monthly basis. Another goal is to determine if the contractor is also meeting the Contractor Contribution, non-Federal match and administrative/indirect cost limitations. Depending on the level of overspending, under spending and not meeting any of the contributions ACS will either provide technical assistance or place the contractor on an ACS corrective action plan. ACS will work with the provider for up to a year to ensure that the contractor has the appropriate financial infrastructure to correct the financial issues mentioned above. If within the year the appropriate financial changes have not been made ACS will decide how to proceed with the contractor.

4.13 Program Closures-Licensed, Registered or Legally-exempt Group programs

ACS has the option to choose whether it will issue payment on behalf of children when a child care program is closed due to specific circumstances listed below:

- State, federal or nationally recognized holiday;
- Natural disasters;
- Severe Weather;
- Other emergency closings.

The maximum number of days for which ACS will reimburse a contractor due to program closure is five per year.

4.14 Vacation and Sick Leave

EarlyLearn Contractors must ensure that all vacation and sick leave is paid out by June 30th or 90 days after the financial statements have been audited. ACS will not recognize any rolled over vacation and sick leave for any contractor's employees. If the contractor allows for such time to roll into the next fiscal year the contractor shall not pay any time and leave from the new fiscal year revenue. The contractor and not ACS shall be responsible for the payment of any accrued vacation and sick leave time rolled into the new fiscal year. Any time accrued not paid out of the end of the fiscal year during the term of any staff employment and upon termination of their employment it is the sole responsibility of the contractor.

Section 5: Financial Audits

Audits are performed to ascertain the validity and reliability of information; also to provide an assessment of a system's internal control. The goal of an audit is to express an opinion of the person/organization/system (etc.) in question, under evaluation based on work done on a test basis. ACS contractors are required to perform yearly audits of their financial statements. The contractor must conduct an annual financial audit by an independent certified public accountant.

The contractor must submit the annual audit to their ACS analyst, within thirty (30) days after the contractor's receipt of the final report, but no later than nine (9) months after the audit period. The audit period shall be for a one (1) year period beginning July 1. The audit must contain an opinion regarding the contractor's financial statements in conformity with generally accepted accounting principles, ACS and New York City Policies and Federal laws including Audits of States, Local Governments, and Non-Profit Organizations including the Compliance Supplement (USOMB A-133) and shall contain a separate opinion of the adequacy of the contractor's internal controls to safeguard its assets. These requirements and regulations will be required to be met regardless of the source(s) of revenue. Audits will be considered incomplete until accepted by the ACS analyst.

If the financial statements indicate that ACS over paid the contractor or the contractor did not spend all the revenue received from ACS, ACS will recoup the funds. ACS will work with the contractor on a payment schedule if needed. ACS will send out yearly instructions to contractors on the types of audit they must perform. All audits must be sent to the Federal Audit Clearing House.

ACS will provide, at least annually, the budget, expenses and revenue paid by the City on behalf of the contractor which includes insurance for Commercial General Liability, Property (e.g. fire, vandalism), Workers' Compensation, Disability, and Fidelity (crime); and rents, taxes, and heat, light and power on City Owned/Leased buildings. ACS will report City administered expenses and revenue by funding stream. Contractors will include the value of these centrally paid expenses and revenue in the audit.

For any qualified audit opinion, disallowance, questioned cost, internal control finding and/or audit compliance finding, the contractor must develop a corrective action plan that resolves the issue in a timely manner. Disallowed expenses will be the responsibility of the contractor and may not be used to meet the Contractor Contribution requirement. ACS will recover all revenues to the contractor that were expended on non-allowable expenses or questionable costs each Fiscal Year.

Section 6: Financial Filings

6.1 Federal Filings

All contractors, who are nonprofits, must fill out a Form 990 with the IRS. Form 990 is an annual reporting form that certain federally tax-exempt organizations must file with the IRS. It provides information on the filing organization's mission, programs, and finances.

6.2 State Filings

All contractors who are nonprofits must fill out a CHAR500 with the New York State. All registered organizations, even those meeting annual report exemption requirements, must file with the Charities Bureau every year on form CHAR500.

Section 7: Credits and Debit Cards

Credit and debit cards are convenient and widely accepted and many organizations have decided that it is appropriate for their staff or officers to be issued a card for the organization. If this is the case, then the officers should meet with officials from their financial institution to discuss the options that can be put in place. These may include daily transaction limits and limits to specific classes of vendors. The persons who carry the cards need to have very clear guidelines around the use of these cards. Organization credit cards should never be used for personal items even if the individual pays their share of the balance as soon as the statement comes due.

Section 8: Retention of Records

Pursuant to Appendix A, Article 5, Section 5.02 of the *EarlyLearn* contract, contractors are required to retain all books, records, and other documents pertaining to the *EarlyLearn NYC* contract for six (6) years after the final payment or expiration or termination of the contract. Organizations should have policies in place that clearly state the length of time that financial records of the organization must be kept. This will apply both to physical written records (ledgers, checks receipts, etc.) and to electronic records if the treasurer is using a computer program to manage the finances of the organization.

The Contractor shall maintain adequate financial records and shall ensure that staff follows appropriate bookkeeping and accounting procedures in a manner which is in compliance with all Laws and ACS Policies.

Section 9: Contractor Financial Performance Measures

9.1 Financial Protocol

The Financial Protocol is a financial performance tool that ACS Financial Services uses to evaluate a contractor's financial infrastructure. The tool is used to assist a contractor in identifying weaknesses and assist in correcting these weaknesses. The tool is also used by ACS Financial Services to develop its annual vendex contractor performance evaluation scores.

The Financial Protocol is a matrix which compares contractors to financial indicators; each indicator is given a number the lower the number an indicator has the less critical the finding is, however, the higher the number an indicator has the more critical the situation is. The Financial Protocol is based on a numbering system, which evaluates each contractor based on the total score received by adding all indicators. The numbering system is tied to an action protocol which outlines the steps that would be taken to address the situation.

Depending on the score a contractor receives would determine what action protocol would pursue, as follows:

- A contractor receiving a score that falls in the range of 1 – 10 would be labeled as contractor "**Of Concern**". This category is explained below, reflects a contractor that has some kind of financial operational problem or weakness that can be solved by the contractor without any assistance from ACS.

- A contractor receiving a score that falls in the range of 11 – 19 would be labeled as a contractor of "**Under Review**". This category is assigned to a contractor who has failed to comply with the actions required under one or has a serious operational issue which requires monitoring and technical assistance.

- A contractor receiving a score that falls in the range of 20 – 30 would be labeled as a contractor "**At Risk**". This category a contractor has failed to comply with the actions required under one and two and has day to day operational issues in managing its finances. ACS imposes a corrective action plan on the contractor. ACS monitors and tracks the corrective action plan in order to assist the contractor in improving their financial infrastructure. The contractor under this process must show ACS that it can sustain itself without assistance from a consultant or ACS.

The protocol review process commences at the end of each month when the Financial Protocol grid is sent to each Department in Finance, e.g. Audit, Budget, Closeout and Payments. The Finance staff evaluates the contractor based on the indicators in the grid and places a numbers next to a contractor based on the findings associated with the problem the contractor is experiencing. The filled out grid is then sent to the Financial Protocol Committee's Secretary, with documentation supporting the numbers chosen in the grid, the Secretary complies all the grids together and sums up all the scores and presents the scores for each contractor to ACS Finance Committee.

The Finance Committee, at the first meeting of the next month, reviews these grids to discuss the findings and to outline the course of action to pursue. The decisions and recommendations are then presented to the Assistant Commissioner for Finance and Assistant Commissioner for Operations.

Once the findings and recommendations have been presented and approvals are obtained the Finance Committee will proceed to follow the protocols as outlined for the category assigned to a contractor as per the grid. The contractor will be notified by correspondence of what ACS has chosen to do regarding its financial situation. At any point the contractor can seek an appeal of ACS's decision by sending a correspondence indicating how ACS's decision is not warranted and supporting documentation with this claim. Once the correspondence is received by ACS Finance Committee they will review it and make a decision. If the Finance Committee finds that the documentation supports the agency's claim correspondence will be sent informing the agency of this decision. If the committee determines that the original decision still is warranted a correspondence will be sent informing the contractor of this and the protocol is followed.

A file or an electronic folder will be opened in which all documentation will be stored in order to keep track of all actions and correspondence with regard to the progress an agency is achieving. The file serves as an audit trail used by the committee to ensure that all actions are taken in order to monitor and assistant a contractor with its financial problem.

Section 10: Summary of Insurance Coverage

Listed below is the insurance coverage that ACS will provide to contractors. This coverage is paid by ACS not the contractor. If the contractor decides to pay for insurance coverage that is already paid for by ACS, the contractor may not report that expense as contractor contribution.

10.1 Workers' Compensation and Disability Insurance

Insurance that provides medical & salary to employees in the event of occupational disease or bodily injury resulting from their employment. Coverage is also provided for any suit filed against programs due to an injury sustained by an employee.

10.2 Commercial General Liability

Insurance that protects programs against claims or suits from the bodily injury suffered by members of the public or from damage to their property. This also includes negligence or physical damage caused by staff; sexual abuse and molestation.

10.3 Special Accident (Non-employee coverage)

This covers medical expenditures for non-employees injured in the program, who are authorized to participate in the activities of the insured.

10.4 Property

Covers physical damage to the contractor property and valuable papers owned by the contractor. Staff personal property and the homes of Family Day Care Providers are excluded. It is written on an all-risk basis and covers standard perils such as burglaries, vandalism, fire and floods.

10.5 Fidelity (Crime)

This covers loss of monies and securities due to employee theft, $1 million limit. This also covers robbery from program premises, including computer theft through outside manipulation; robbery of program messenger away from the premises, premises monies and security; loss resulting from check forgery. It does not cover petty cash coverage.

Section 11: Employee Health Insurance

Health insurance coverage is funded in the daily rate that ACS provides the following *EarlyLearn NYC* programs:

- Child Care Center
- Head Start Center
- Dual Center

Only the Administrative staff in the following *EarlyLearn NYC* programs is funded in the daily rate for employee health insurance coverage:

- Group Family Home
- Family Home

Section 12: Pension

Pension funds are part of the *EarlyLearn* rate for Head Start funded employees only. Pension for child care funded employees including Family Child Care Network (FCCN) Administrative Staff will continue to be provided by the Cultural Institutions Retirement Systems (CIRS). Family Child Care Network provider employees are not entitled to the pension covered through the CIRS.

Section 13: Purchases Made with *EarlyLearn* Funds

Title to all equipment, supplies, real property and intangible property purchased with funds paid under the *EarlyLearn NYC* contract may be in the name of the Contractor, but it shall not be disposed of without the written approval of ACS. Upon the termination or expiration of the *EarlyLearn NYC* contract, all equipment, supplies, real property and intangible property purchased with funds under the contract shall be returned to ACS or disposed of as ACS shall direct. The Contractor shall establish and maintain, in the form required by ACS or applicable funding sources, an inventory control of all equipment, supplies, real property, intangible property and non-consumable items of property.

Appendices

Appendix A: Board Legal Duties and Responsibilities

Appendix B: Sarbanes-Oxley Act

Appendix C: Glossary

Appendix A: Board Legal Duties and Responsibilities

All contractors' Board Members should know their legal duties and Board responsibilities. Listed below are some of these responsibilities.

Legal Duties of Board Members

1. **Duty of Care.** Board member's responsibility to actively participate in making decisions on behalf of the organization and to exercise their best judgment while doing so.

2. **Duty of Loyalty**. When acting on behalf of the organization in a decision-making capacity, board members must set aside their own personal and professional interests. The organization's needs come first.

3. **Duty of Obedience**. Board members bear the legal responsibility of ensuring that organizations remain true to its mission and purpose by its compliance with all applicable federal, State and local laws.

4. **Duty of Attention**. Board members should make every effort to govern. Be prepared for board meetings, attend board meetings, participate in discussions, review materials and ask questions.

Board Responsibilities

1. Determine the organization's mission and purpose.

    a. It is the Board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.

    b. Review regularly the organization's mission and goals and should evaluate, no less than every five years, the organization's programs, goals and activities to be sure they advance its mission and make prudent use of its resources.

2. Should establish its own size and structure and review these periodically.

    a. Board should have enough members to allow for full deliberation and diversity of thinking on governance and other organizational matters.

    b. Include members with diverse background and experience and organizational and financial skills necessary to advance the organization's mission.

Appendix A: Board Legal Duties and Responsibilities

3. Select the Chief Executive.
    a. Boards must reach consensus on the Chief Executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
    b. Evaluate the performance of the Chief Executive and should conduct such and evaluation prior to any changes in that officer's compensation.
4. Ensure effective organizational planning.
    a. Boards must be actively participate in an overall planning process and assist in implementing and monitoring plan's goals.
5. Provide proper financial oversight.
    a. The Board must assist in developing the annual budget and ensuring the proper financial controls are in place.
    b. The Board should review and approve the annual budget and should monitor actual performance against budget.
    c. Must keep complete, current and accurate financial records. Should receive and review timely reports of the organization's financial activities and should have a qualified, independent financial expert audit or review these statements annually.
    d. Must institute policies and procedures to ensure that the organization manages and invests its funds responsible.
6. Ensure adequate financial resources exist for the organization to fulfill its mission.
    a. The Board must provide adequate resources for the organization to fulfill its mission.
    b. The Board should not provide loans, loan guarantees, relieving a debt or lease obligation to directors and staff.
7. Comply with all applicable federal, state and local laws and regulations.
    a. Contributions, contracts and grants must be used for purpose consistent with the donor's intent.
    b. Should adopt clear polices, based on its specific exempt purpose to determine whether accepting a gift would compromise its ethics, financial circumstances program focus or other interest.
8. Ensure legal and ethical integrity and maintain accountability. Ensure legal standards and ethical norms are respected.

Appendix A: Board Legal Duties and Responsibilities

a. The Board is ultimately responsible for ensuring adherence to legal standards and ethical norms.

b. The Board should have a formally adopted, written code of ethics with which all of its directors, staff is familiar and to which they adhere.

c. Adopt and implement policies and procedures to ensure that all conflicts of interest, or the appearance, within the organization and the Board are appropriately managed through disclosure, recusal or other means.

d. Establish a "whistleblower policy" which allows individuals to come forward with information on illegal practices and violations without the fair of retaliation and will protect the confidentiality of individuals who make good-faith reports.

9. Ensure effective organizational planning.

    a. Boards must be actively participate in an overall planning process and assist in implementing and monitoring plan's goals.

10. Recruit and orient new board members and asses board performance.

    a. All Boards have a responsibility to articulate prerequisites, orient new members, and periodically and comprehensively evaluate its own performance.

    b. Establish an effective, systematic process for educating and communicating with Board members to ensure that they are aware of their legal and ethical responsibilities are knowledgeable about the programs and activities of the organization, and carry out their oversight functions effectively.

    c. Should evaluate their performance as a group and as individuals no less frequently than every three years, and have clear procedures for removing Board members who are unable to fulfill their responsibility.

    d. Should establish clear policies and procedures setting length of terms and the number of consecutive terms a Board member may serve.

11. Enhance the organization's public standing.

    a. The Board should clearly articulate the organization's mission, accomplishments, and goals to the public and obtain support from the community.

    b. Make information about its operations, including its governance, finances, programs and activities, widely available to the public.

12. Determine, monitor and strengthen the organization's programs and services.

    a. The Board's responsibility is to determine which programs are consistent with the organization's mission and to monitor their effectiveness.

13. Support the chief executive and assess his/her performance.
    a. The Board should ensure that the Chief Executive has the moral and professional support needs to further the goals of the organization
14. Ensure that the organization has adequate plans to protect its assets that include but are not limited to:
    a. Important documents and business records
    b. Property
    c. Financial and human resources
    d. Programmatic content and material
    e. Integrity and reputation
15. Meet regularly enough to conduct its business and fulfill duties.

Board's Role in Financial Management

Board members have a fiduciary duty for the organization, a responsibility to see that the organization is well-managed and that all finances are safely guarded. There are three areas that require their attention and participation.

Policies: The board must have financial policies, written in language everyone understands, that provide guidance to staff. These policies spell out the board's desire regarding matters such as controls on cash receipts and disbursements, budget practices, investments, operating reserves, capital budgets, risk management, financial reports and audits. The Board must ensure that the finances of the organization are professionally handled.

Budget: Every organization should have an annual budget that is approved by the board. Budget policies should be established that develops the budget cycle, instructions, forms and activity. Policy should also be developed which apply to budget revisions.

Financial Reporting: The board should understand the various financial statements, budget reports and cash flow statements.

Appendix A: Board Legal Duties and Responsibilities

Business Conduct

A Code of Ethics

ACS contractors must have a code of ethics. A code of ethics is a set of principles to guide a nonprofit organization's decision making and activities, as well as the behavior of its employees, volunteers, and board members. The purpose of adopting a formal code is to provide employees, volunteers and board members with guidelines for making ethical choices in the conduct of their work on behalf of the organization. Honesty, integrity, and fair practices create a solid foundation that earns the public's trust. A code of ethics is the expression of that solid foundation. When board members of a nonprofit adopt a code of ethics, they are expressing their commitment to ethical behavior.

I. Introduction

As a matter of fundamental principle, ACS contractors should adhere to the highest ethical standards because it is the right thing to do. Contractors should do so because donors and volunteers support charitable organizations because they trust them to carry out their missions, to be good stewards of their resources, and to uphold rigorous standards of conduct.

Contract organizations are, at base, people, and it is up to the people of the contract organization board members, executive leaders, staff and volunteers to demonstrate their ongoing commitment to the core values of integrity, honesty, fairness, openness, respect, and responsibility.

II. The Code of Ethics

A. Personal and Professional Integrity

Board members and volunteers shall act with honesty, integrity and openness in all their dealings as representatives of the organization.

B. Mission

Each contractor shall have a clearly stated mission and purpose, approved by the Board of Trustees, in pursuit of the public good. All staff shall support that mission and all who work for or on behalf of the organization will understand and be loyal to that mission and purpose. The mission shall be responsive to the constituencies and communities served by contractor and value to the society at large.

C. Governance

Each contractor shall have an active governing body, the Board of Trustees, which is responsible for setting the mission and strategic direction of the organization and oversight of the finances, operations, and policies of the organization. The Board of Trustees:

- Ensures that its board members or trustees have the requisite skills and experience to carry out their duties and that all members understand and fulfill their governance duties acting for the benefit of organization and its public purpose;
- Has a conflict of interest policy that ensures that any conflicts of interest or the appearance thereof are avoided or appropriately managed through disclosure, recusal or other means;
- Is responsible for the hiring, firing, and regular review of the performance of the President & CEO, and ensures that the compensation of the chief executive officer is reasonable and appropriate;
- Ensures that the President & CEO and appropriate staff provide the governing body with timely and comprehensive information so that the governing body can effectively carry out its duties;
- Ensures that the organization conducts all transactions and dealings with integrity and honesty;
- Ensures that the organization promotes working relationships with board members, staff, volunteers, and program beneficiaries that are based on mutual respect, fairness and openness;
- Ensures that the organization is fair and inclusive in its hiring and promotion policies and practices for all board, staff and volunteer positions;
- Ensures that policies of the organization are in writing, clearly articulated and officially adopted;
- Ensures that the resources of the organization are responsibly and prudently managed; and,
- Ensures that the organization has the capacity to carry out its programs effectively.

D. Legal Compliance

Contractors will be vigilant in compliance with laws, regulations and applicable conventions that govern and regulate their organization.

E. Responsible Stewardship

Contractors shall manage its funds responsibly and prudently. This should include the following considerations:

- It spends a reasonable percentage of its annual budget on programs in pursuance of its mission;
- It spends an adequate amount on administrative expenses to ensure effective accounting systems, internal controls, competent staff, and other expenditures critical to professional management;
- Compensates staff, and any others who may receive compensation, reasonably and appropriately;
- Has reasonable fundraising costs, recognizing the variety of factors that affect fundraising costs;
- Will maintain an appropriate level of funds to maintain its mission and purpose and not accumulate excessive reserve funds;
- Ensures that all spending practices and policies are fair, reasonable and appropriate to fulfill the mission of the organization; and,
- All financial reports are factually accurate and complete in all material respects.

F. Openness and Disclosure

Contractors shall provide comprehensive and timely information to the ACS and all stakeholders and is responsive in a timely manner to reasonable requests for information.

- All information about the contractor will fully and honestly reflect the policies and practices of the organization. Basic informational data about the organization, such as the Form 990, reviews and compilations, and audited financial statements will be posted on its website or otherwise available to the public.
- All solicitation materials accurately represent the organization's policies and practices and will reflect the dignity of program beneficiaries.
- All financial, organizational, and program reports will be complete and accurate in all material respects.

G. Program Evaluation

Contractors will regularly review program effectiveness and have mechanisms to incorporate lessons learned into future programs.

- A contractor is committed to improving program and organizational effectiveness and develops mechanisms to promote learning from its activities and the field.
- Contractors will be responsive to changes in its field of activity and the needs of its constituencies.

H. Inclusiveness and Diversity

Contractors shall have a policy of promoting inclusiveness and its staff, board and volunteers reflect diversity in order to enrich its programmatic effectiveness. Contractors shall take meaningful steps to promote inclusiveness in its hiring, retention, promotion, board recruitment and constituencies served.

I. Fundraising

Contractor shall adhere to all ACS fundraising polices.

Contractors shall raise funds from the public and from donor institutions and be truthful in solicitation materials.

Contractors will respect the privacy concerns of individual donors and expends funds consistent with donor intent.

- Contractors shall disclose important and relevant information to potential donors.
- In raising funds, Contractors will respect the rights of donors, as follows:
    - To be informed about the contractors mission, the way the resources will be used and their capacity to use donations effectively for their intended purposes;
    - To be informed of the identity of those serving on the contractors governing board and to expect the board to exercise prudent judgment in its stewardship responsibilities;
    - To have access to the most recent contractor financial reports;
    - To be assured their gifts will be used for the purposes for which they were given;
    - To receive appropriate acknowledgement and recognition;
    - To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by the law;

- To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature;
- To be informed whether those seeking donations are volunteers, contractor employees or hired solicitors;
- To have the opportunity for their names to be deleted from mailing lists that the contractor may intend to share; and,
- To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

Conflict of Interest

Each contractor must have a conflict of interest policy which outlines what constitutes a conflict of interest for Board members, staff and volunteers. Conflict of interest arises whenever the personal or professional interests of a board member are potentially at odds with the best interests of the nonprofit.

Such conflicts are common: A board member performs professional services for an organization, or proposes that a relative or friend be considered for a staff position. Such transactions are perfectly acceptable if they benefit the organization and if the board made the decisions in an objective and informed manner. Even if they do not meet these standards, such transactions are usually not illegal. They are, however, vulnerable to legal challenges and public misunderstanding. Loss of public confidence and a damaged reputation are the most likely results of a poorly managed conflict of interest. Because public confidence is important to most nonprofits, boards should take steps to avoid even the appearance of impropriety. These steps may include:

- Adopting a conflict-of-interest policy that prohibits or limits business transactions with board members and requires board members to disclose potential conflicts.
- Disclosing conflicts when they occur so that board members who are voting on a decision are aware that another member's interests are being affected.
- Requiring board members to withdraw from decisions that present a potential conflict.
- Establishing procedures, such as competitive bids, that ensure that the organization is receiving fair value in the transaction.

For a sample of a conflict interest policy, please review IRS Instructions for Form 1023 - Additional Material Appendix A: Sample Conflict of Interest Policy.

Compensation Policies

Contractors must have a compensation policy which is used to compensate the Executive Director/CEO and other key employees in the organization. Ensuring that the Board has approved reasonable and not excessive compensation for the Executive Director/CEO and other key employees is one of the fiduciary responsibilities of every nonprofit Board. Boards that engage in an annual process of reviewing and approving the compensation of key employees and that document the process in minutes of Board meetings will be protecting their organization. An annual review also ensures that the organization is acting in a transparent manner because through the process the full Board will be aware how much the key staff is paid by the organization. Compensation is defined as salary and benefits, such as insurance, a car, housing allowance and other fringe benefits. All and similar items should be included in the calculation of the total annual compensation.

The policy for setting the compensation should include the following:

- Review by an independent body, such as a compensation committee, executive committee or the full Board.
- Use comparable data such as compensation surveys or studies from outside compensation consultants.
- Documentation, through minutes of the meetings, of the Boards consideration and approval of the compensation.

Appendix B: Sarbanes-Oxley Act:

The Public Company Accounting Reform and Investor Protection Act 2002, or Sarbanes – Oxley (SOX) Act 2002 and Implications for Nonprofit Organizations

With two notable exceptions, the Sarbanes-Oxley Act affects only American publicly traded companies and regulates what boards must do to ensure auditors' independence from their clients. The Act also creates and defines the role of the Public Company Accounting Oversight Board, an entity empowered to enforce standards for audits of public companies. The Act explains processes for electing competent audit committee members and for ensuring that adequate reporting procedures are in place. In addition, it calls for regulations, and closes most of the loopholes, for all enterprises — for-profit and nonprofit — relating to document destruction and whistle-blower protection.

The following sections cover each of the major provisions of the law and discuss their relevance to nonprofit organizations.

INDEPENDENT AND COMPETENT AUDIT COMMITTEE

Summary of Sarbanes-Oxley Provision

The Sarbanes-Oxley Act requires that each member of a company's audit committee be a member of the board of directors and be independent. "Independence" in the Act is defined as not being part of the management team and not receiving any compensation (either directly or indirectly) from the company as a consultant for other professional services, though board service may be compensated. In addition, a company must disclose whether it has at least one "financial expert" serving on its audit committee. If it does not have such an expert, it must disclose the rationale behind that decision. Who qualifies as a "financial expert" is still being debated. The Securities and Exchange Commission (SEC) proposes a definition that relies on an individual's education and experience as a public accountant, auditor, or principal accounting officer. At present, however, the company's board seems to retain the final right to establish specific qualifications for a financial expert. The audit committee is directly responsible for hiring, setting compensation, and overseeing the auditor's activities. It sets rules and processes for complaints concerning accounting and internal control practices.

RELEVANCE TO NONPROFIT BOARDS

While not all nonprofits conduct outside audits, most nonprofit boards have established one or more financial committees (e.g., finance, audit, and/or investment). In those organizations that undertake annual audits, particularly medium to large nonprofit organizations, the board is likely to have a separate audit committee or subcommittee. In California, the Nonprofit Integrity Act of 2004 requires that any charity registered with the attorney general and receiving annual gross revenues of $2 million or more must form an audit committee. Several other states have adopted similar rules, albeit at varying gross revenue thresholds. It is good practice for nonprofit organizations to take steps to ensure the independence of the audit committee. While most nonprofit board members serve as volunteers without any compensation and staff members do not participate as voting members, all nonprofit organizations should review their practices to ensure the independence of the audit committee. Also, many states provide additional liability protection

for volunteer directors that may be lost if the directors are compensated for their service. Because of recruitment priorities to create a well-balanced and diverse board, finding people with financial savvy may be challenging for boards. Nonprofit organizations need to ensure that board members of the audit committee have the financial competency to understand financial statements, to evaluate accounting firm bids to undertake auditing, and to make sound financial decisions as part of their fiduciary responsibilities. A nonprofit that has a limited number of financial experts on its board may struggle with filling the treasurer's position, a finance committee, and an audit committee.

RECOMMENDATIONS

While it is too onerous to demand that all nonprofit organizations undertake a full audit, the board is responsible for assessing the potential benefits and costs of an independent audit. Nonprofits that expend more than $500,000 of federal funds are required to conduct an annual audit. In addition, participating in the Combined Federal Campaign requires an audit at $100,000. Any other charitable organization with $1 million or more in total annual revenues (excluding houses of worship or other organizations that are exempt from filing Form 990) should have an audit conducted of their financial statements and consider attaching a copy to their Form 990 or 990-PF. Smaller charities with revenues of at least $250,000 should choose a review or at least have heir financial statements compiled by a professional accountant. The boards of nonprofit organizations that forego an audit should evaluate that decision periodically.

All nonprofit organizations that conduct outside audits, particularly medium to large organizations, should consider forming an audit committee and should separate the audit committee from the finance committee. The audit committee should be composed of individuals who are not compensated for their service on this committee and do not have a financial interest in or any other conflict of interest with any entity doing business with the organization. Most nonprofit organizations have volunteer board members. Nonprofit organizations that do compensate board members should not compensate audit committee members for their additional service. In addition, all nonprofits should ensure that no members of staff, including the chief executive, serve on the audit committee, although it is reasonable to have the chief financial officer provide staff support to the audit committee. The chair of the audit committee should be a board member and it is reasonable to expect that the majority of the committee members are board members. The audit committee should ensure that the auditing firm has the requisite skills and experience to carry out the auditing function for the organization and that its performance is carefully reviewed. The audit committee should meet with the auditor, review the annual audit, and recommend its approval or modification to the full board. The full board should review the annual audit and the audit committee's report and recommendations. Ideally the full board would also desire to meet with the auditor before formally accepting or rejecting the audit.

At least one member of the audit committee should meet the criteria of financial expert and have adequate financial savvy to understand, analyze, and reasonably assess the financial statements of the organization and the competency of the auditing firm. This may be a non-director advisory member where permitted by state law. Orientation of board members should include financial literacy training. To support the accounting field and help ensure that nonprofit boards have available financial expertise, professional accreditation and membership organizations of accountants should require CPAs to participate in a pro bono nonprofit board service program.

RESPONSIBILITIES OF AUDITORS

SUMMARY OF SARBANES-OXLEY PROVISIONS

The Sarbanes-Oxley Act requires that the lead and reviewing partner of the auditing firm rotate off of the audit every five years. This does not necessarily mean that the auditing firm must be changed; although that may be the most direct way to comply with this requirement. In addition, the Act prohibits the auditing firm from providing most non-audit services to the company concurrent with auditing services. This prohibition applies to bookkeeping, financial information systems, appraisal services, actuarial services, management or human resource services, investment advice, legal services, and other expert services unrelated to the audit. The board's audit committee may, however, pre-approve certain services (not included in the above categories), such as tax preparation, which can then be carried out by the auditing firm. In addition, the pre-approval requirement is waived for non-auditing services if the value of the nonauditing services is less than five percent of the total amount paid by the organization to the auditing firm for auditing services. The Act also requires that the auditing firm report to the audit committee all "critical accounting policies and practices" that are used by the organization, discussed with management, and represent the preferred way management wants these policies and practices treated. These critical accounting practices include methods, assumptions, and judgments underlying the preparation of financial statements according to generally accepted accounting principles (GAAP) and assurance that any results would be disclosed in case of changed assumptions.

RELEVANCE TO NONPROFIT BOARDS

Changing auditors (partner or firm) every five years should be considered on a regular basis. The rationale: Auditing firms may grow accustomed to the financial procedures within one organization after a certain number of years, and bringing in a new firm helps ensure that all practices are closely examined. Nonprofit organizations would be well served to adopt the Sarbanes-Oxley rule of preventing auditing firms from providing non-auditing services, as this provision precludes a conflict of interest between the auditing firm and the client. At a minimum, application of the rule should be considered in each case. At the same time, certain services can be pre-approved by the audit committee, and there is no reason why tax services and preparation of the Form 990 or 990- PF (for private foundations), for example, could not and should not be undertaken by a nonprofit's auditing firm. This can also ensure that certain economies are achieved for the client. Finally, the provisions about disclosure to the audit committee of critical accounting policies and discussions with management also seem to follow good practice. Greater disclosure of these internal control practices and management's views on them will foster more informed judgments by the audit committee, enhanced oversight by the board, and greater transparency. The critical accounting practices would include processes for segregation of duties, policies to use restricted funds for intended purposes, processes to review off-balance sheet transactions, and procedures for monitoring inventory fluctuations. In addition, the audit committee may be an effective committee for overseeing implementation and enforcement of the governing body's conflict-of-interest policy.

RECOMMENDATIONS

Large nonprofits should consider rotating at least the lead and reviewing partners of the audit firm every five years. Nonprofit organizations should be cautious when using their auditing firms to provide non-auditing services except for tax preparation, which should be approved in advance, while the firm is contracted to provide auditing services. The audit committee should require each auditing firm to disclose to the committee all critical accounting policies and practices used within the organization as well as share with the committee any discussions with management about such policies and practices.

CERTIFIED FINANCIAL STATEMENTS

SUMMARY OF SARBANES-OXLEY PROVISIONS

The chief executive and the chief financial officers must certify the appropriateness of financial statements and that they fairly present the financial condition and operations of the company. There are criminal sanctions for false certification, but violations of this statute must be knowing and intentional to give rise to liability. In addition, to avoid conflicts of interest, the CEO, CFO, controller, and chief accounting officer cannot have worked for the auditing firm for one year preceding the audit.

RELEVANCE TO NONPROFIT ORGANIZATIONS

Any CFO who is responsible for generating timely and accurate financial statements for the company or organization should feel comfortable about certifying document integrity.

In a for-profit company, a positive bottom line is the CEO's responsibility. Business acumen, capacity to interpret financial statements in detail, and skillfulness in convincing the board and shareholders that the corporation is meeting all expectations are obvious characteristics in a manager. Likewise, a nonprofit chief executive may be handicapped without adequate financial skills. He or she may be hired, however, primarily for other qualities. Nonprofit CEOs may excel in fundraising, knowledge of the organization's field of interest, or a variety of other skills. Lack of superior financial prowess must be complemented by a skillful financial officer; without that person, the organization cannot convince donors and funders that their money is properly managed. Nevertheless, it is still the responsibility of the CEO to ensure good stewardship of the organization's resources. Under Sarbanes-Oxley, CEO and CFO certification carries with it the weight of the law, but part of the underlying rationale is to ensure that both the CEO and CFO know and understand the financial statements. For a nonprofit organization, CEO and CFO sign-off on financial statements would not carry the weight of law (although some states are now considering adopting a similar requirement), but it would signal the importance that the CEO, in particular, attaches to understanding the nonprofit's financial condition.

For nonprofit organizations, a key financial document is the Form 990 or 990-PF. The form requires a signature from an officer of the organization. Research from a number of studies reveals that the accuracy of these forms leaves much to be desired. Many of the errors in the

Form 990 and 990-PF relate to failures to complete all forms, including Schedule A. Other problems include presenting an inaccurate report on fundraising costs, thereby distorting the required financial picture of the organization's operations. Thus, it is critical that nonprofit organizations examine their financial systems, policies, and reporting to help improve the accuracy and completeness of these forms.

There is, in all likelihood, considerably less staff movement in the nonprofit world between accounting firms and client organizations than there is in the for-profit world. Furthermore, because nonprofit executives do not receive lucrative stock options, the relevance of possible conflicts of interest from an auditor joining the executive staff of a nonprofit client is correspondingly less.

RECOMMENDATIONS

CEOs or CFOs, while they need not certify the financial statements of the organization, do need to fully understand such reports and make sure they are accurate and complete. Signing off provides formal assurance that both the CEO and the CFO have reviewed them carefully and stand by them. The CEO and CFO should review the Form 990 or 990-PF before it is submitted to ensure that it is accurate, complete, and filed on time. Regardless of whether the CEO and CFO certify the financial report, the board has the ultimate fiduciary responsibility for approving financial reports. Just as the financial and audit reports are reviewed and approved by the audit committee and the board, the Form 990 or 990-PF should also be reviewed and approved. At a time when the Form 990 and 990-PF are published on the Internet by third parties, it is more important than ever that directors be familiar with the contents of the organization’s 990 each year.

INSIDER TRANSACTIONS AND CONFLICTS OF INTEREST

SUMMARY OF SARBANES-OXLEY PROVISION

The Act generally prohibits loans to any directors or executives of the company.

RELEVANCE TO NONPROFIT ORGANIZATIONS

Nonprofits are currently highly regulated with respect to financial transactions that take place within the organization. Private inurement, excessive personal benefit, and self -dealing all cause serious penalties for any nonprofit that steps out of line. “Intermediate sanctions” laws specifically address compensation and excess benefit transactions with “disqualified” individuals, generally board members and executive staff. Providing private loans to insiders — the specific item included in the Sarbanes- Oxley Act - is not a common practice in the nonprofit sector. However, when it has occurred, it has caused problems either from the perception of a conflict of interest or because it has not been appropriately documented as part of executive compensation.

In addition, in some states, nonprofit law expressly prohibits loans to directors and officers.

RECOMMENDATIONS

Because the practice of providing loans to nonprofit executives has been a source of trouble in the past and because this practice is specifically prohibited under Sarbanes-Oxley and in some states, it is strongly recommended that nonprofit organizations not provide personal loans to directors or executives. If such loans are provided, they should be formally approved by the board, the process for providing the loan should be documented, and the value and terms of the loan should be disclosed. To guide the board and staff in independent decision making, the organization must have a conflict-of-interest policy with board members annually disclosing their potential conflicts of interest, and this policy must be enforced without fail.

DISCLOSURE

SUMMARY OF SARBANES-OXLEY PROVISION

The Sarbanes-Oxley Act requires a number of disclosures, including information on internal control mechanisms, corrections to past financial statements, and material off balance sheet transactions (adjustments). The Act also requires companies to disclose information on material changes in the operations or financial situation of the company on a rapid and current basis.

RELEVANCE TO NONPROFIT ORGANIZATIONS

While nonprofit organizations do not file most of the reports that publicly traded companies are required to file, they should nevertheless provide their donors, clients, public officials, the media, and others with an accurate picture of their financial condition. Current law already requires tax-exempt organizations to make their Forms 990 or 990-PF freely available to anyone who requests them in writing or in person. These information returns, as mentioned before, need improvements both in accuracy and in timeliness of disclosure. One way to achieve that objective is through electronic filing, something the Internal Revenue Service is currently pursuing and the nonprofit community generally endorses.

RECOMMENDATIONS

Nonprofit organizations should improve the timeliness, accuracy, and completeness of the Forms 990 or 990-PF by filing electronically when that option is available to them. Nonprofits should strive for greater disclosure and transparency. Nonprofits should not rely on automatic extensions for filing Forms 990 and 990-PF without cause. Audited financial statements should be easily accessible for review. Two provisions of the Sarbanes-Oxley Act apply to all entities because they are amendments to the federal criminal code, so all nonprofit organizations need to comply with them.

WHISTLE-BLOWER PROTECTION

SUMMARY OF SARBANES-OXLEY PROVISION

The Sarbanes-Oxley Act provides protections for whistle-blowers and imposes criminal penalties for actions taken in retaliation against those who risk their careers by reporting suspected illegal activities in the organization. It is illegal for any entity — for-profit and nonprofit alike — to punish the whistle-blower in any manner.

Appendix B: Sarbanes-Oxley Act

RELEVANCE TO NONPROFIT ORGANIZATIONS

Nonprofits must start by protecting themselves. They must eliminate careless and irresponsible accounting practices and benefit from an internal audit that brings to light weak spots and installs processes that are not vulnerable to fraud and abuse. Written policies that are vigorously enforced by executive staff and the board send a message that misconduct is not tolerated. These policies should cover any unethical behavior within the organization — including sexual harassment. Each organization must develop procedures for handling employee and volunteer complaints, including the establishment of a confidential and anonymous mechanism to encourage employees and volunteers to report any inappropriateness within the entity's financial management. No punishment for reporting problems — including firing, demotion, suspension, harassment, failure to consider the employee for promotion, or any other kind of discrimination — is allowed. Even if the claims are unfounded, the organization may not reprimand the employee. The law does not force the employee to demonstrate misconduct; a reasonable belief or suspicion that a fraud exists is enough to create a protected status for the employee.

RECOMMENDATIONS

Nonprofits must develop, adopt, and disclose a formal process to deal with complaints and prevent retaliation. Nonprofit leaders must take any employee and volunteer complaints seriously, investigate the situation, and fix any problems or justify why corrections are not necessary.

DOCUMENT DESTRUCTION
SUMMARY OF SARBANES-OXLEY PROVISION

The Sarbanes-Oxley Act addresses destruction of litigation-related documents. The law makes it a crime to alter, cover up, falsify, or destroy any document (or persuade someone else to do so) to prevent its use in an official proceeding (e.g., federal investigation or bankruptcy proceedings). The Act turns intentional document destruction into a process that must be monitored, justified, and carefully administered.

RELEVANCE TO NONPROFIT ORGANIZATIONS

Common sense dictates that individuals, nonprofit organizations, and companies regularly need to shred or otherwise dispose of unnecessary and outdated documents and files. Like their for-profit counterparts, nonprofit organizations need to maintain appropriate records about their operations. For example, financial records, significant contracts, real estate and other major transactions, employment files, and fundraising obligations should be archived according to guidelines established by the organization. Because of current technology, electronic files and voicemail can become complicated as we come to understand the relevance of the delete button as a permanent method of file removal.

Appendix B: Sarbanes-Oxley Act

RECOMMENDATIONS

A nonprofit organization should have a written, mandatory document retention and periodic destruction policy. Such a policy also helps limit accidental or innocent destruction.

The document retention policy should include guidelines for handling electronic files and voicemail. Electronic documents and voicemail messages have the same status as paper files in litigation-related cases. The policy should also cover back-up procedures, archiving of documents, and regular check-ups of the reliability of the system. If an official investigation is underway or even suspected, nonprofit management must stop any document purging in order to avoid criminal obstruction charges.

CONCLUSION

The Sarbanes-Oxley Act has now been in force for several years. The legal climate has intensified in the nonprofit sector as Congressional committees and state legislatures are actively proposing new legislation to regulate organizations. Individual nonprofits have begun to identify loopholes - and figure out how to eliminate them. Watchdog agencies and other nonprofit field-building organizations are reconsidering assumptions and standard operating procedures in an effort to identify guidelines, standards, and best practices in the sector. Regardless of the present scope of existing and potential new legislation at the state and federal level, nonprofit organizations have heard the wake-up call. For all of us in the sector, the Sarbanes-Oxley Act spearheaded a renewed realization that nonprofit organizations rely on - and must protect - the indispensable and unequivocal confidence and trust of our constituents. Self-regulation and proactive behavior will always prove more powerful than compulsory respect of laws.

Source of information (The Sarbanes-Oxley Act and Implications for Nonprofit Organizations / ©2003 BoardSource and INDEPENDENT SECTOR)

Appendix C: Glossary of Financial Terms

Glossary of Financial Terms

Accounts Payable: Money owed by an organization to its suppliers and/or vendor for goods or services purchased.

Accounts Receivable: Money owed to an organization for goods and services that has been committed to it as a grant or donation.

Accrual Basis of Accounting: The basis of accounting in which revenue is record when earned and expenditures are recorded when obligated.

Administrative Costs: Costs associated with overall management of the program and do not relate to the provision of program component services, but do include costs such as the staff accountant's salary and audit services, etc.

Allocable Cost: Costs of an item that can be allocated to a funding source. The cost of an item is allocable to a particular grant program or other activity in accordance with the relative benefits that a program receives from the item. A cost is allocable if it is treated consistently with other costs incurred for the same purpose in like circumstances.

Audit: A review of financial statements or performance activity (such as of an agency or program) to determine conformity or compliance with applicable laws, regulations, and/or standards.

Budget: Is a plan of operation expressed in terms of financial or other resource requirements for a specific period of time.

Balance Sheet: Is the statement showing an organization's financial position (assets, liabilities and net assets) at the close of business on a particular date. Also known as a statement of financial position. (This statement changes daily.)

Cash Basis: Is the basis of accounting that records receipts and disbursements when cash is received or paid.

Cash Flow: Is the receipt and disbursement of monies. This is an assessment and understanding of cash coming into and flowing out of an organization in specific periods of time. This can be based on projections or actual cash flow.

Cash Flow Budget: Is a budget that provides an overview of cash inflows and outflows during a specified period of time. This is often called the cash flow, or the cash budget. Just as cash flow is one of the most critical elements of an organization, the cash flow projection is one of the most critical elements of planning.

Cash Flow Statement shows actual cash inflows and outflows of the organization over a specified period of time. The Cash Flow Statement reconciles the Income Statement (Profit and Loss) with the Balance Sheet.

Glossary of Financial Terms

Cash Flow Statement is a statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents. The cash flow statement is concerned with the flow of cash in and cash out of the organization. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the cash flow statement is useful in determining the short-term viability of an organization, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7) is the International Accounting Standard that deals with cash flow statements.

Children, in the Child and Adult Care Food Program (CACFP), means: (a) persons 12 years of age or under, (b) children of migrant workers 15 years of age or under, and (c) persons with mental or physical handicaps, as defined by the State, who are enrolled in an institution or a child care facility serving a majority of persons 18 years of age or under. For the purpose of reimbursement for meal supplements served in after-school care programs, the same definition of child or children applies. However, a different definition of child is used in NSLP and SBP (refer to 7 CFR 210.2 and 7 CFR 220.2, respectively)**.**

CHAR500 – see New York State Attorney General Charities Bureau Form CHAR500.

Cost Allocation: Is the process of assigning to two or more programs the costs of an item shared by the programs. The goal is to ensure that each program bears its fair share, and only its fair share, of the total cost of the item. The term is sometimes used by cost accountants to describe the allocation of costs, especially overhead costs, to specified accounting categories. For purposes of cost allocation in Head Start grantee agencies, cost allocation refers to the allocation of costs to various sources of funding, not to accounting categories.

Cost Allocation Plan or (CAP): The plan developed by an organization receiving funding for more than one program, which enables them to fairly and equitably allocate the shared costs of the organization to each of its programs. This is a plan in which expenses are classified into either program expenses/direct cost or administrative expenses/indirect cost. This has to be done for all programs irrespective of whether it has one funding source or multiple funding sources. This is required as part of the A-133 audit, Statement of Activities.

A CAP is a written account of the methods used by an agency to allocate costs to its various funding sources. It is the process of assigning two or more programs the costs of an item shared by the program. The goal is to ensure that each program bears its fair share and only its fair share, of the total cost of the item.

Corrective Action: Improvement measures taken to rectify a systems failure and prevent its recurrence.

Glossary of Financial Terms

Direct Cost: Those costs that can be identified specifically with a particular project, program or activity (i.e., a particular award, project, service, or other direct activity of an organization). A cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to an award as an indirect cost.

Disallowance: A cost determined during an audit, or other review conducted by the funding agency, to be unallowable under the OMB Cost Principles and/or the Terms and Conditions of the grant award.

Documentation: Written proof that a service has been provided or a donation has been received. Examples include receipts, timecards and invoices or proof of payment.

Dual Benefit Costs: Costs that can be associated as both administrative functions and program component services. Therefore, they must be allocated on a rational basis between administrative and program costs.

Indirect Cost Rate: A ratio, expressed as a percentage, of an organization's total indirect costs to its direct cost base. Direct cost bases are normally the total direct costs less exclusions on salaries plus fringe benefits. When a rate is established for a specific activity or program, the rate represents the ratio of the total indirect costs allocated to the activity or program to the direct cost base costs of the activity or program.

In-kind: Property or services that benefit a grant supported project or program and are contributed by non-Federal third parties without charge to the grantee. In-kind contributions may consist of the value of real property and equipment and the value of goods and services directly benefiting the grant program and specifically identifiable to it. In-kind match is counted for the period when the services are provided or when the donated goods are received and used.

Non-Federal Share: That portion of the total costs of the program provided by the grantee agency in the form of in-kind donations or cash match received from third parties or contributed by the agency. In-kind contributions must be provided and cash expended during the project period along with Federal funds to satisfy the matching requirements.