



B A S M A A

Policy and Procedure #7

Title: Financial

The purpose of this policy and procedure is to define and specify BASMAA's accounting practices. Related policies and procedures are:

- *#1 Budgeting and Work Planning* – establishes BASMAA's policy and procedure for all aspects of developing and approving BASMAA's budgets and work plans, including schedule, project selection criteria, and decision-making.
- *#4 Consultant Selection and Contracting* – establishes guidelines for implementing a selection process to hire consultants to conduct BASMAA projects, including implementation of grant and loan funded projects.
- *#8 Funding and Accounting for BASMAA Efforts* – defines and specifies financial elements of regional efforts conducted by BASMAA.
- *#9 Grant Administration* – establishes BASMAA's policy and procedure for meeting the administrative requirements of federal or state grants received by BASMAA, which include administrative requirements above-and-beyond those already addressed by BASMAA's other policies and procedures and/or that are specific to a particular grant.
- *#10 Grant Proposal Development* – defines how BASMAA addresses grant proposal development, including the use and standing of consultants involved in proposal development.
- *#11 Project Management and Project Deliverable Approval* – establishes authorities, and roles and duties of BASMAA project officers and standing or ad hoc committee members overseeing projects.

Basis of Accounting

BASMAA uses the accrual basis of accounting. The accrual basis of accounting records the effects of a transaction and other events in the periods when they occur instead of only in the periods when cash is received or paid. Accordingly, accrual accounting considers not only cash transactions but also non-cash transactions and exchanges of goods and services.

In addition, BASMAA follows the accounting and reporting practices set forth in the American Institute of Certified Public Accountants industry guide, Non Profit Organizations.

Under these provisions, net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of BASMAA and changes therein are classified and reported as follows:

Unrestricted

Generally unrestricted net assets result from revenues in providing services, producing and delivering goods, receiving unrestricted contributions, and receiving dividends or interest from investing in income producing assets, less expenses incurred in providing services,

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producing and delivering goods, raising contributions, and performing administrative functions.

Temporarily Restricted

BASMAA reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted

These stipulate that resources be maintained permanently but permits BASMAA to use up or expend part or all of the income (or other economic benefits) derived from the donated assets and also any unrealized gain or loss on the investments that are permanently restricted.

Donor restricted contributions whose restrictions are met in the same accounting period as received are classified as unrestricted.

Accounting System

The accounting system is maintained on QuickBooks.

Key Personnel

The key personnel involved in the accounting processes are as follows:

- Executive Director (ED)
- Executive Assistant (EA)
- Contracts Manager (CM)
- Treasurer
- Accountant
- Project Officer

Cash Management

Cash shall be managed so BASMAA can:

- Prevent losses from theft or fraud;
- Accurately account for cash receipts, payments and balances; and
- Maintain sufficient cash balances.

The authorized signers on all bank accounts shall be at a minimum, the ED and the Treasurer.

BASMAA maintains three bank accounts, a checking account, a savings account, and a business credit card account. Cash receipts shall be deposited to the savings account, unless the checking account balance needs to be increased. The ED will monitor the balances in the accounts, with

the assistance of the Accountant, and make transfers from the savings account to the checking account as needed to cover cash disbursements.

The ED shall review the bank statements from the organization's online banking system monthly. The ED shall ensure the Accountant has view-only access to the bank accounts, including the statements. The Accountant in QuickBooks shall perform bank reconciliations on a monthly basis. The Accountant shall research outstanding checks greater than 90 days old.

Accounts Receivable

Prompt billing and invoicing for membership dues and services provided by the organization are essential for effective management of receivables.

The ED will provide the Accountant with timely and adequate billing information for the recording of the receivables in BASMAA's financial records.

The Contracts Manager will be responsible for monitoring the status of all receivables, billing, and performing the necessary collection activities to assure timely receipt of payments.

It is the responsibility of the Accountant to:

- Maintain an accurate record of receivables transactions detail.
- Provide an AR Aging report to management on a monthly basis.
- Work with management to determine realistic estimates of doubtful accounts, as necessary.
- Properly account for receivables that are written off.
- Recognize and report receivables in accordance with generally accepted accounting principles (GAAP) as required.

Cash Receipts

BASMAA receives cash in the form of checks and increasingly through wire transfer, such as payments received under a grant from the Environmental Protection Agency. Deposits are generally made monthly – at the end of the month.

Cash Receipt Procedures

1. Checks are received in the P.O. Box.
2. The EA opens all checks.
3. The EA stamps the back of each check with an endorsement stamp.
4. The EA scans the checks and any correspondence/remittance. The EA e-mails the copy of the checks to the ED and Accountant, and forwards the checks to the ED.
5. The ED makes the deposit, which includes an e-receipt posted to the appropriate account.
6. The EA scans the deposit e-receipt.
7. The Accountant enters the cash receipts into QuickBooks.

Wires Received Procedures

1. The ED is notified via e-mail of wires received.
 2. The ED forwards the wire notification to the Accountant.
 3. The Accountant records the cash receipt into the QuickBooks system.
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Accounts Payable**Definition of Cost**

Costs are deemed reasonable when they are incurred based on the approved budget and are recognized as ordinary and necessary for the operation of the organization or performance of a particular award.

If a cost benefits both an award and other aspects of the organization, a reasonable and traceable basis will be used for distribution of the cost to the award. BASMAA does not shift costs between awards to cover deficiencies between federal awards nor do they allocate costs onto multiple awards.

Credits received such as purchase discounts, rebates, etc. that relate to the allowable cost charged to a federal award will be applied against the award either as a cash refund or cost reduction.

The organization follows OMB circular-122 for correct application of allowable costs.

Expense Categories

The organization uses its annual budget as a guideline for coding expenses to the proper category. See the organization's Chart of Accounts for a listing of general ledger accounts.

Programs/Awards

The organization uses classes within its accounting system to track expenses related to its programs, special projects and awards versus general operations. Expenses that are allocable to several programs, projects or awards are coded to cost pools which are then allocated annually, at a minimum, using an allocation method based on a measure of usage that best relates to the particular expense.

Invoice / Report information

Accounts payable invoices shall contain, at a minimum, the following information:

- Brief descriptions of work conducted and list of deliverable(s) produced by task in the time period covered by the invoice
- Consultant / Vendor name and address
- Contact email address and phone number
- Project identifier (i.e., project title and/or number)
- Date of invoice

- Name of client (i.e., BASMAA)
- Invoice number
- Time period covered by invoice
- Total amount due
- Sub-total amounts by tasks / products
- Sub-total amounts by sub-consultants / sub-vendors
- Number of hours and hourly rate by individual or classification by tasks / products
- Other direct costs / expenses itemized by tasks / products
- Receipts for other direct costs / expenses
- Overall and by task accounting of total (sub-) budget, budget expended to-date (through current invoice), (sub-) budget remaining, and remaining (sub-) budget as percentage of total budget
- Statement or signature of authorized representative certifying accuracy of invoice / report

The above list of minimum information shall be provided in BASMAA boilerplate contractual documents.

Cash Disbursements

The organization does not use a purchase order (P.O.) system; rather, the ED must ultimately approve all purchases.

Vendors are contacted directly for orders of certain goods and services. Contractual services are paid based on a signed contract that has been pre-approved by the ED based on the Board of Directors approved budget.

Two approvals are required on payments greater than \$50,000. The Treasurer is the primary approver, and a second Officer, usually the Chair of the Board of Directors, is the secondary approver.

Procedures – Invoices Paid by Checking Account

1. Paper invoices – All paper mail is received at the organization's P.O. Box and is opened by the EA. The EA stamps the dates on invoices when they were received and converts paper invoices into electronic form by scanning them in Portable Document Format (PDF). The EA forwards such converted invoices to the Contracts Manager.
2. Electronic invoices – The CM receives invoices electronically via e-mail directly from consultants and vendors and indirectly from the EA. Should the ED receive any invoices, the ED forwards them to the CM.
3. The CM reviews the invoices against the appropriate quote or contract to ensure they are consistent with the applicable financial parameters.
4. The CM forwards the invoices to the applicable Project Officers to review the work performed to ensure it is consistent with the agreed-to scopes, schedules, and deliverables.
5. The CM deems as approved for payment invoices passing the CM and Project Officer reviews. The CM electronically stamps the invoices as approved and electronically codes

them to the appropriate general ledger (GL) accounts, programs, and funding sources to which they should be charged.

6. The CM uploads the approved invoices to BASMAA's bill.com website twice a month – by 5th and the 20th days of the month. The CM notifies the Accountant and ED that invoices have been uploaded and are ready for payment.
7. The Accountant processes the invoices in Bill.com and assigns the invoices for the necessary online approvals by the Treasurer and, as needed, a second Officer, usually the Chair of the Board of Directors. The Treasurer will review the electronic supporting documentation through BASMAA's bill.com account. If a second approval is required, the second Officer is notified. Payments are made twice a month – on or about the 5th and the 20th days of the month. Once the required approvals are completed, the Accountant schedules the invoices for payment through Bill.com.
8. Payees signed up for electronic payments are notified through bill.com of when the electronic transfer of funds to their bank accounts will occur and again on the day of the transfer. Payees signed up to receive paper checks via mail are similarly notified.
9. The Accountant syncs both the AP invoices and the payments in Bill.com with QuickBooks.

Paid invoices, along with the payment information are maintained electronically on bill.com.

Procedures – Invoices Paid by Business Credit Card

Invoices that are paid instead by business credit card (e.g., for recurring automatic payments) are handled differently than those paid through bill.com. The general procedure is:

1. The CM receives electronic versions of the invoices / receipts for credit card payments. Depending on the vendor, for some accounts, the CM receives the invoices / receipts automatically and directly while for other accounts, the CM must use a browser to proactively acquire the invoices / receipts. And for still other accounts, the ED may receive the invoices / receipts that the ED then forwards to the CM.
2. The CM reviews the invoices / receipts against the appropriate quote or contract to ensure they are consistent with the applicable financial parameters.
3. The CM deems as approved for payment invoices / receipts passing the CM review. The CM electronically stamps the invoices / receipts as approved and electronically codes them to the appropriate general ledger (GL) accounts, programs, and funding sources to which they should be charged.
4. The CM uploads the approved invoices / receipts to BASMAA's box.com website twice a month – by 5th and the 20th days of the month for document retention purposes.

Notes

Expense reports and invoices for the ED are approved by a member of the Board of Directors. The Accountant processes the invoices in the same manner as other invoices, except that the Chair of the Board is the 1st approver, rather than the 2nd approver like on other invoices.

In special circumstances, the ED may request a paper check be provided, filled out with the appropriate information, to pay a vendor or agency (e.g., California Attorney General's office for Registry of Charitable Trusts renewal fee purposes) in a way that bill.com cannot provide. In those circumstances, the Accountant prints the checks on blank check stock using a MICR printer

and fills in all of the pertinent information. The checks are then mailed/FedEx'd to the ED for signature.

Functional Allocation of Expenses

The organization charges and allocates its expenses on a functional basis among its program and support services on an annual basis for reporting purposes. Expenses that can be specifically identified with a program or support service are allocated directly. Expenses common to several functions are allocated according to a formula developed by management. Allocations are based on a measure of usage that best relates to the particular expense. Currently, the Executive Director expense is the only indirect expense that is allocated on an annual basis. The Executive Director expense is allocated to the various programs based on time spent during the fiscal year by the ED.

Accounting for Revenue

This policy defines and classifies the types of operating and non-operating revenue generated and reported by the organization. Revenue consists of inflows from providing services or other activities that constitute the ongoing major operations of the organization.

Revenue is the largest item in the financial statements. Revenue is recognized when it is earned and realizable. Generally, this means revenue is recognized when there is evidence of a transaction, collection is likely, and delivery or partial delivery of the product or service has already occurred. Revenue should be adjusted to accurately reflect deferred revenue (a liability) for revenues billed/collected, but not yet earned.

Operating Revenue

Operating revenue is revenue received through the major operations of the organization. Some examples include:

- Membership dues
- Contributions
- Federal Awards

Non-operating Revenue

Non-operating revenue is revenue that is derived from sources other than normal operations. Some examples include:

- Interest income

Revenue Recognition

Membership dues

The revenue related to membership is recognized in the fiscal year to which it relates.

Contributions

Contributions, including unconditional promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Federal Awards

The organization receives federal awards for specified purposes and time periods. The awards are recognized as allowable expenditures when made. Awards received in advance are recorded as deferred revenue (a liability). Amounts earned under the awards and not yet received are recorded as accrued revenue (an asset).

In-kind Revenue/Expense

BASMAA receives in-kind services and grant match contributions from project partners. In-kind or match agreements with contributors specify expectations, requirements, and details regarding the type, amount, value, schedule, tracking, documenting, and reporting of contributions (see Policy and Procedure: *Funding and Accounting for BASMAA Efforts*).

Consistent with these agreements:

- The services or contributions are tracked on a log, either provided by BASMAA or reviewed and approved by the ED. The log will detail the type, amount, description and fair value of the donated services or contributions. The basis of the contribution will be recorded at fair market value based on the determination of the Project Officer and review of supporting documentation provided by the project partners. The ED approves the log and determines if the fair market value is appropriate and signs off on the log.
- All in-kind contributors will supply appropriate back up and support to satisfy BASMAA's reporting and audit requirements.
- The in-kind logs will be submitted by the project partners/contractors monthly to the ED for approval. The ED will forward the approved logs to the Accountant for entry into the QuickBooks system.

BASMAA documents the details of matching/in-kind funds in reports to the Finance Committee and granting agencies and tracks such activity in the same manner as incurred costs.

Month-end Close

The following tasks should be performed on a monthly basis as part of the month-end close and should be completed no later than the 20th of the following month:

- Perform bank reconciliations for all bank accounts. (Accountant)
- Ensure all accounts receivable invoices have been prepared and mailed for services performed in the current month. (ED/Accountant)

- Reconcile activity on active grants and record related revenue, accrued revenue, and/or deferred revenue, as necessary. (Accountant)
- Reconcile prepaid expenses as of month-end and ensure the appropriate expenses have been recognized. (Accountant)
- Ensure all accounts payable invoices for the prior month have been recorded, or accrued if the invoice has not been received. (Accountant)
- Reconcile the accrued expense accounts, if any. (Accountant)
- Review revenues and expenses to ensure amounts have been coded to proper category, class and job. (Accountant)
- Record any other necessary journal entries. (Accountant)
- Prepare monthly reports – see Financial Reporting. (Accountant)

The organization performs a formalized close at year-end.

Journal Entries

All journal entries shall have supporting documentation and be maintained electronically in box.com in a folder for each year.

Reporting

Financial statements are prepared monthly in a format that includes the actual revenue and expenses with a comparison against the budget.

The financial package includes a statement of position, activities, and other special reports as requested by management.

The financial package is presented to the Finance Committee monthly and discussed on a quarterly basis.

Reports for grants are prepared by the consulting Accountant and approved by the ED and are based on the monthly financial reports. Reports are submitted to grantors based on the requirements of the specific grant.

A133 Audit Procedures

During the years in which expenditures of federal award(s) are \$500,000 or greater, BASMAA will comply with an A133 audit.

- The organization contracts with an audit firm with experience in A133 audits to perform a year-end audit of their financials and a report on internal control over financial reporting and on compliance with laws, regulations and provisions of contracts and grants agreements.
- The Audit Committee of the Board of Directors approves the audit firm.
- The cost of the audit is allocated to the federal programs based on the approved budget.

Planned Indirect Cost Rate

The organization does not currently require an indirect cost rate for their current operations; all costs are incurred related to a specific program. If an indirect cost rate is deemed necessary in the future, BASMAA will devise an appropriate rate.

Budget Procedure

The annual budget is prepared by the Executive Director and presented to the Board of Directors for approval. The approval is documented in the Board of Directors minutes.