



NEXT DOOR FOUNDATION, Inc.

**Accounting & Financial
Policies and Procedures Manual**

Effective Date(s) of Accounting Policies

The effective date of all accounting policies described in this manual is 4/1/2009. If a policy is added or modified subsequent to this date, the effective date of the new/revised policy will be indicated parenthetically immediately following the policy heading.

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INTRODUCTION

The following accounting manual is intended to provide an overview of the accounting policies and procedures for Next Door Foundation, Inc. which shall be referred to as “Next Door Foundation” or “the Organization” throughout this manual.

Next Door Foundation is incorporated in the state of Wisconsin. Next Door Foundation is exempt from Federal income taxes under IRC Section 501(c)(3) as a nonprofit corporation. Next Door Foundation’s tax-exempt mission is to:

To support the intellectual, physical, spiritual and emotional development of children so they become self-sufficient, contributing members of the community.

This manual shall document the financial operations of the Organization. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls.

The contents of this manual were approved as official policy of the Organization by the Board of Directors, Executive Director, and Controller. All Next Door Foundation staff are bound by the policies herein, and any deviation from established policy is prohibited.

GENERAL POLICIES

ORGANIZATIONAL STRUCTURE

The Role of the Board of Directors

Next Door Foundation is governed by its Board of Directors, which is responsible for the oversight of the Organization by:

1. Planning for the future
2. Establishing broad policies, including financial and personnel policies and procedures
3. Approving grant applications
4. Reviewing and approving the annual audit
5. Reviewing financial information
6. Identifying and proactively dealing with emerging issues
7. Interpreting the Organization's mission to the public
8. Soliciting prospective contributors
9. Hiring, evaluating, and working with the Executive Director
10. Establishing and maintaining programs and systems designed to assure compliance with terms of contracts and grants
11. Authorizing establishment of all bank accounts and check signers.

The Executive Director shall be responsible for the day-to-day oversight and management of Next Door Foundation.

Committee Structure

The Board of Directors shall form committees in order to assist the board in fulfilling its responsibilities. These committees are responsible for the review of particular programs and providing recommendations to the full board. Standing board-level committees of Next Door Foundation consist of the following:

1. Executive Committee
2. Advancement Committee
3. Finance and Administration Committee
4. Human Resources & Compensation Committee
5. Nominating Committee
6. Program Committee
7. Strategic Planning Committee

See the Organization's by-laws for board and committee details. However, roles of committees with direct responsibilities for the financial affairs of the Organization are further described in this manual. These committees shall be referred to in appropriate sections of this manual.

Finance and Administration Committee Responsibilities

The Finance and Administration Committee is responsible for direction and oversight regarding the overall financial management of Next Door Foundation. Functions of the Finance Committee include:

1. Review and recommendation of the Organization's annual budget (prepared by the staff) for final approval by the full board
2. Long-term financial planning

3. Evaluation and approval of facilities decisions (i.e., leasing, purchasing property)
4. Monitoring of actual vs. budgeted financial performance
5. Oversight of reserve funds
6. Review of financial procedures

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

The Finance and Administrative Committee hires an independent CPA firm and communicates directly with the CPA firm for an annual audit, as described in the Organization's by-laws. The Finance and Administrative Committee shall review and approve the final audited financial statements, and any other communications received from the auditor regarding internal controls, illegal acts, or fraud.

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

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

The Roles of the Executive Director and Staff

The Board of Directors hires the Executive Director, who reports directly to the board. The Executive Director is responsible for hiring and evaluating the VP of Administration and the Department Directors for each of the Organization's departments. The VP of Administration and each Department Director reports to the Executive Director.

The VP of Administration and the Department Directors are responsible for hiring employees to work in their departments with approval from the Executive Director. All employees within a department shall report directly to that department's director, manager or supervisor, who shall be responsible for managing and evaluating all employees within the department.

NDF Organizational Chart

FISCAL DEPARTMENT OVERVIEW

Organization

The Fiscal Department consists of four staff who manage and process financial information for Next Door Foundation. The following positions comprise the Fiscal Department:

- Fiscal Director
- Senior Grant Accountant
- Senior Accountant
- Associate Accountant
- Accounting Assistant(s)

Other officers and employees of Next Door Foundation who have financial responsibilities are as follows:

- Executive Director
- VP of Administration
- Department Directors
- Human Resources Department
- Treasurer – Board level
- Finance and Administrative Committee – Board level
- Executive Committee – Board level
- Full Board of Directors

Responsibilities

The primary responsibilities of the Fiscal Department consist of:

- General ledger
- Budgeting
- Cash and investment management
- Asset management
- Grants and contracts administration
- Purchasing
- Accounts receivable and billing
- Cash receipts
- Accounts payable
- Cash disbursements
- Payroll and benefits
- Financial statement processing
- External reporting of financial information
- Bank reconciliation
- Reconciliation of subsidiary ledgers
- Compliance with government reporting requirements
- Annual audit
- Leases
- Insurance

Standards for 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 Non-Profit Organizations*, Next Door Foundation maintains a financial management system that provides for the following. Specific procedures to carry out these standards are detailed in the appropriate sections of this manual.

1. Accurate, current, and complete disclosure of the financial results of each Federally-sponsored project or program in accordance with the reporting requirements of A-110 and/or the award.
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. Next Door Foundation shall adequately safeguard all such assets and assure they are used solely for authorized purposes.
4. Comparison of outlays with budget amounts for each award. Whenever possible, financial information shall be related to performance and unit cost data.
5. Written procedures to minimize the time elapsing between the transfer of funds to Next Door Foundation from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient.
6. Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
7. Accounting records including cost accounting records that are supported by source documentation.

BUSINESS CONDUCT

Practice of Ethical Behavior

Unethical actions, or the appearance of unethical actions, are unacceptable under any conditions. The policies and reputation of Next Door Foundation depend to a very large extent on the following considerations.

Each employee must apply her/his own sense of personal ethics, which should extend beyond compliance with applicable laws and regulations in business situations, to govern behavior where no existing regulation provides a guideline. Each employee is responsible for applying common sense in business decisions where specific rules do not provide all the answers.

In determining compliance with this standard in specific situations, employees should ask themselves the following questions:

1. Is my action legal?
2. Is my action ethical?
3. Does my action comply with Next Door Foundation policy?
4. Am I sure my action does not appear inappropriate?
5. Am I sure that I would not be embarrassed or compromised if my action became known within the Organization or publicly?
6. Am I sure that my action meets my personal code of ethics and behavior?
7. Would I feel comfortable defending my actions on the 6 o'clock news?

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

Each director, manager and supervisor is responsible for the ethical business behavior of her/his subordinates. Directors, managers and supervisors must carefully weigh all courses of action suggested in ethical, as well as economic terms, and base their final decisions on the guidelines provided by this policy, as well as their personal sense of right and wrong.

Compliance with Laws, Regulations, and Organization Policies

Next Door Foundation does not tolerate:

- The willful violation or circumvention of any Federal, state, local, or foreign law by an employee during the course of that person's employment;
- The disregard or circumvention of Next Door Foundation policy or engagement in unscrupulous dealings.

Employees should not attempt to accomplish by indirect means, through agents or intermediaries, that which is directly forbidden.

The performance of all levels of employees will be measured against implementation of the provisions of these standards.

CONFLICTS OF INTEREST

Introduction

In the course of business, situations may arise in which an Organization decision-maker has a conflict of interest, or in which the process of making a decision may create an appearance of a conflict of interest.

All directors and employees have an obligation to:

1. Avoid conflicts of interest, or the appearance of conflicts, between their personal interests and those of the Organization in dealing with outside entities or individuals,
2. Disclose real and apparent conflicts of interest to the Board of Directors, and
3. Refrain from participation in any decisions on matters that involve a real conflict of interest or the appearance of a conflict.

What Constitutes a Conflict of Interest?

A conflict of interest arises when a director or employee involved in making a decision is in the position to benefit, directly or indirectly, from his/her dealings with the Organization or person conducting business with the Organization. (A potential conflict of interest exists when the director or employee, or his/her immediate family {spouse, children, brother, sister and spouses of children, brother or sister} owes/receives more than 1% of the benefiting business/profits.)

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

1. Negotiates or approves a contract, purchase, or lease on behalf of the Organization and has a direct or indirect interest in, or receives personal benefit from, the entity or individual providing the goods or services;
2. Negotiates or approves a contract, sale, or lease on behalf of the Organization and has a direct or indirect interest in, or receives personal benefit from, the entity or individual receiving the goods or services;
3. Employs or approves the employment of, or supervises a person who is an immediate family member of the director or employee;
4. Sells products or services in competition with the Organization;
5. Uses the Organization's facilities, other assets, employees, or other resources for personal gain;
6. Receives a substantial gift from a vendor, if the director or employee is responsible for initiating or approving purchases from that vendor.

Disclosure Requirements

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

Therefore, Next Door Foundation requires the following:

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

Resolution of Conflicts of Interest

All real or apparent conflicts of interest shall be disclosed to the Finance and Administrative Committee and the Executive Director of the Organization. Conflicts shall be resolved as follows:

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

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

- An appeal must be directed to the chair of the board.
- Appeals must be made within 30 days of the initial determination.
- Resolution of the appeal shall be made by vote of the full Board of Directors.
- Board members who are the subject of the appeal, or who have a conflict of interest with respect to the subject of the appeal, shall abstain from participating in, discussing, or voting on the resolution, unless their discussion is requested by the remaining members of the board.

Disciplinary Action for Violations of this Policy

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

Disciplinary action will be taken:

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

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

POLICY ON SUSPECTED MISCONDUCT

Introduction

This policy communicates the actions to be taken for suspected misconduct committed, encountered, or observed by employees and volunteers.

Like all organizations, Next Door Foundation faces many risks associated with fraud, abuse, and other forms of misconduct. The impact of these acts, collectively referred to as misconduct throughout this policy, may include, but not be limited to:

- Financial losses and liabilities
- Loss of current and future revenue and customers
- Negative publicity and damage to the Organization's good public image
- Loss of employees and difficulty in attracting new personnel
- Deterioration of employee morale
- Harm to relationships with clients, vendors, bankers, and subcontractors
- Litigation and related costs of investigations, etc.

Our Organization is committed to establishing and maintaining a work environment of the highest ethical standards. Achievement of this goal requires the cooperation and assistance of every employee and volunteer at all levels of the Organization.

Definitions

For purposes of this policy, misconduct includes, but is not limited to:

1. Actions that violate the Organization's Code of Conduct (and any underlying policies) or any of the accounting and financial policies included in this manual
2. Fraud (see below)
3. Forgery or alteration of checks, bank drafts, documents or other records (including electronic records)
4. Destruction, alteration, mutilation, or concealment of any document or record with the intent to obstruct or influence an investigation, or potential investigation, carried out by a department or agency of the Federal government or by the Organization in connection with this policy
5. Disclosure to any external party of proprietary information or confidential personal information obtained in connection with employment with or service to the Organization
6. Unauthorized personal or other inappropriate (non-business) use of equipment, assets, services, personnel or other resources
7. Acts that violate Federal, state, or local laws or regulations
8. Accepting or seeking anything of material value from contractors, vendors, or persons providing goods or services to Next Door Foundation. Exception: gifts less than a nominal value of \$25.
9. Impropriety of the handling or reporting of money in financial transactions.

10. Failure to report known instances of misconduct in accordance with the reporting responsibilities described herein (including tolerance by supervisory employees of misconduct of subordinates).

Fraud is further defined to include, but not be limited to:

- Theft, embezzlement, or other misappropriation of assets (including assets of or intended for the Organization, as well as those of our clients, subcontractors, vendors, contractors, suppliers, and others with whom the Organization has a business relationship)
- Intentional misstatements in the Organization's records, including intentional misstatements of accounting records or financial statements
- Authorizing or receiving payment for goods not received or services not performed
- Authorizing or receiving payments for hours not worked
- Forgery or alteration of documents, including but not limited to checks, timesheets, contracts, purchase orders, receiving reports

Next Door Foundation prohibits each of the preceding acts of misconduct on the part of employees, officers, executives, volunteers and others responsible for carrying out the Organization's activities.

Reporting Responsibilities

Every employee, officer, and volunteer is responsible for immediately reporting suspected misconduct to their supervisor, VP of Administration, Controller, or the Chair of the Finance and Administrative Committee. When supervisors have received a report of suspected misconduct, they must immediately report such acts to their manager, VP of Administration, Controller or the Finance and Administrative Committee.

Whistleblower Protection

The Organization will consider any reprisal against a reporting individual an act of misconduct subject to disciplinary procedures. A "reporting individual" is one who, in good faith, reported a suspected act of misconduct in accordance with this policy, or provided to a law enforcement officer any truthful information relating to the commission or possible commission of a Federal offense.

Investigative Responsibilities

Due to the sensitive nature of suspected misconduct, supervisors and managers should not, under any circumstances, perform any investigative procedures.

The Controller or VP of Administration has the primary responsibility for investigating suspected misconduct involving employees below the Executive Director and executive management level. The Controller or VP of Administration shall provide a summary of all investigative work to the Finance and Administrative Committee.

The Finance and Administrative Committee has the primary responsibility for investigating suspected misconduct involving Executive Director and executive level positions, as well as board members and officers. However, the Finance and Administrative Committee may request the assistance of the Controller or VP of Administration in any such investigation.

Investigation into suspected misconduct will be performed without regard to the suspected individual's position, length of service, or relationship with the Organization.

In fulfilling its investigative responsibilities, the Finance and Administrative Committee shall have the authority to seek the advice and/or contract for the services of outside firms, including but not limited to law firms, CPA firms, forensic accountants and investigators, etc.

Members of the investigative team (as authorized by the Finance and Administrative Committee) shall have free and unrestricted access to all Organization records and premises, whether owned or rented, at all times. They shall also have the authority to examine, copy and remove all or any portion of the contents (in paper or electronic form) of filing cabinets, storage facilities, desks, credenzas and computers without prior knowledge or consent of any individual who might use or have custody of any such items or facilities when it is within the scope of an investigation into suspected misconduct or related follow-up procedures.

The existence, the status or results of investigations into suspected misconduct shall not be disclosed or discussed with any individual other than those with a legitimate need to know in order to perform their duties and fulfill their responsibilities effectively.

Protection of Records – Federal Matters

Next Door Foundation prohibits the knowing destruction, alteration, mutilation, or concealment of any record, document, or tangible object with the intent to obstruct or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States government, or in relation to or contemplation of any such matter or case.

Violations of this policy will be considered violations of the Organization's Code of Ethics and subject to the investigative, reporting, and disclosure procedures described earlier in this Policy on Suspected Misconduct.

Disciplinary Action

Based on the results of investigations into allegations of misconduct, disciplinary action may be taken against violators. Disciplinary action shall be coordinated with appropriate representatives from the Human Resources Department. The seriousness of misconduct will be considered in determining appropriate disciplinary action, which may include:

- Reprimand
- Probation
- Suspension
- Demotion
- Termination
- Reimbursement of losses or damages
- Referral for criminal prosecution or civil action

This listing of possible disciplinary actions is for information purposes only and does not bind the Organization to follow any particular policy or procedure.

Confidentiality

The Finance and Administrative Committee and the Controller treat all information received confidentially. Any employee who suspects dishonest or fraudulent activity will notify the Controller or the Finance and Administrative Committee Chair immediately, and should not attempt to personally conduct investigations or interviews/interrogations related to any suspected fraudulent act (see **Reporting Procedures** section above).

Great care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect Next Door Foundation from potential civil liability.

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

The reporting individual should be informed of the following:

1. Do not contact the suspected individual in an effort to determine facts or demand restitution.
2. Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the Next Door Foundation legal counsel or the Finance and Administrative Committee.

Disclosure to Outside Parties

Allegations of and information related to allegations of suspected misconduct shall not be disclosed to third parties except under the provisions described in this policy (such as disclosure to outside investigators hired by the Organization to aid in an investigation).

However, all known frauds involving the Executive Director, senior management, or members of the Board of Directors, as well as all material frauds involving employees below the senior management level, shall be disclosed by the Finance and Administrative Committee to the Organization's external auditors.

SECURITY

Fiscal Department

A lock will be maintained on the door leading into the Next Door Foundation Fiscal Department. This door shall be closed and locked in the evenings and whenever the Fiscal Department is vacant. The key/combination to this lock will be provided to fiscal personnel and the Executive Director, and other personnel as approved by the Executive Director. The lock will be changed whenever any of these individuals leaves the employment of Next Door Foundation.

Next Door Foundation's blank check stock shall be stored in a fireproof file cabinet in the Fiscal Department. This cabinet will be locked with a key that is kept in the Fiscal Department. Access to this file cabinet shall be by keys in the possession of the Controller and the Payroll/Accounts Payable Specialist.

Petty cash is stored in a drawer locked with a key. The Petty Cash Custodian and the Controller will be the only employees with keys to the petty cash drawer.

Access to Electronically Stored Accounting Data

Next Door Foundation utilizes passwords to restrict access to accounting software and data. Only duly authorized accounting personnel with data input responsibilities will be assigned passwords that allow access to the system.

Accounting personnel are expected to keep their passwords secret and to change their passwords on a regular basis, no less frequently than every 60 days. Administration of passwords shall be performed by a responsible individual independent of programming functions.

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

Storage of Back-Up Files

Next Door Foundation maintains back-up copies of electronic data files off-site in a secure, fire-protected environment. Access to back-up files shall be limited to individuals authorized by management. A log should be kept which records the whereabouts of each backup media. Multiple copies of backup media are recommended so as to not overwrite the most recent backup.

The Organization should have a regularly scheduled test of its capability to restore from backup media.

Storage of Sensitive Data

In addition to accounting and financial data stored in the Fiscal Department, other sensitive data, such as social security numbers of employees or clients, etc. may be stored in areas other than the Fiscal Department, such as in program, Human Resources offices, etc. Therefore, the Organization:

1. Minimizes the storage of sensitive data outside the Fiscal Department by shredding documents with such data or deleting the sensitive data from documents that are stored outside the Fiscal Department whenever possible; and
2. Requires that all sensitive data that is stored in areas other than the Fiscal Department be secured in locked filing cabinets that are placed in offices that are locked after hours.

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

Destruction of Consumer Information

As stated earlier, all sensitive data must be securely stored and shredded when no longer needed. Next Door Foundation will also shred all consumer information obtained by the Organization for any reason. Shredding will be performed on a schedule determined by each department that possesses such data and the schedule shall be made a part of the Record Retention policy (see the "Fiscal Management" policies section of this manual).

General Office Security

During normal business hours, all visitors are required to check in with the receptionist. After hours, a security key is required for access to the offices of Next Door Foundation. Keys are issued only to employees of Next Door Foundation.

TECHNOLOGY AND ELECTRONIC COMMUNICATIONS

Purpose and Scope

The purpose of this policy is to identify guidelines for the use of Next Door Foundation technologies and communications systems. This policy establishes a minimum standard that must be upheld and enforced by users of the Organization's technologies and communications systems.

The term "user" as used in these policies refers to employees (whether full-time, part-time or limited-term), independent contractors, consultants, and any other user having authorized access to, and using any of, the Organization's computers or electronic communications resources.

Computer and electronic communications resources include, but are not limited to, host computers, file servers, stand alone computers, laptops, PDAs, printers, fax machines, phones, online services, email systems, bulletin board systems, and all software that is owned, licensed or operated by Next Door Foundation.

Acceptable Use of Organization Property

Use of the Organization's computers and electronic communications technologies is for program and business activities of Next Door Foundation. These resources shall be used in an honest, ethical, and legal manner that conforms to applicable license agreements, contracts, and policies regarding their intended use. Although incidental and occasional personal use of the Organization's communications systems are permitted, users automatically waive any rights to privacy.

In addition, the information, ideas, concepts and knowledge described, documented or contained in the Organization's electronic systems are the intellectual property of Next Door Foundation. The copying or use of the Organization's intellectual property for personal use or benefit during or after employment (or period of contract) with Next Door Foundation is prohibited unless approved in advance by the Executive Director.

All hardware (laptops, computers, monitors, mice, keyboards, PDAs, printers, telephones, fax machines, etc.) issued by Next Door Foundation is the property of the Organization and should be treated as such. Users may not physically alter or attempt repairs on any hardware at any time. Users must report any problems with hardware to the Information Technology Manager.

Password Security

Users are responsible for safeguarding their login passwords. Passwords may not be shared, printed, or stored online. Users should not leave their computers unattended without logging off. If a user suspects that the secrecy of their password has been compromised they should report this to the Information Technology Manager immediately and initiate a password change request.

Passwords should contain at least 7 characters and be complex. They should not be a dictionary word, your son or daughters name, etc. Passwords should be made up of a combination of the following: letters, numbers, special characters, upper and lower case characters.

The Organization enforces a password change policy every 120 days. Unique passwords are required at each change.

Confidentiality

All information about individuals, families or organizations served by Next Door Foundation is confidential. No information may be shared with any person or organization outside Next Door Foundation without the prior written approval of the individual, family or organization and the Executive Director.

E-Mail Communications

The Organization may communicate with its customers, vendors and clients via e-mail. E-mail is not a secure or private communications mechanism, nor should employees treat it that way. Sensitive or confidential information should not be sent via e-mail over the Internet without password protection or encryption.

Employees should exercise care in the use of e-mail and in the handling of e-mail attachments. If an e-mail is from someone you do not know, or if you were not expecting an attachment, do not open it, delete it. The user should contact the Information Technology Manager for assistance if there are questions as to the validity of the message and attachment.

Anti-Virus Controls

The Organization maintains current anti-virus controls on its computer systems. This includes servers and personal computers. The system will automatically download and distribute virus signature updates to all systems. The anti-virus software is monitored by the Information Technology Manager. Weekly file system scans of all systems are conducted automatically.

Users are prohibited from disabling or altering the configuration of the anti-virus software. Users are also required to report any suspicious activity on their computers to the Information Technology Manager. This activity included, but is not limited to: cursor or mouse moving on its own, hard drive thrashing without user input, uncharacteristically slow performance, a change in behavior of the system, etc.

Disposal of Computer Equipment

Next Door Foundation will run "file-shredding" software on all electronic media, including computer hard drives, prior to disposing of computer equipment. This software should perform low-level formatting or use a "wipe" utility that follows the Department of Defense (DoD) standard 5220.22. The software overwrites all areas of the computer's hard drive in a manner that makes it impossible for subsequent users to retrieve any of the data on the hard drive. This procedure shall be performed by Next Door Foundation's Information Technology Manager.

Copyrighted Information

Use of Next Door Foundation electronic communication systems to copy, modify, or transmit documents, software, information or other materials protected by copyright, trademark, patent or trade secrecy laws, without obtaining prior written permission from the owner of such rights in such materials, is prohibited.

Download/Installation of Software

The installation of new software without the prior approval of the Information Technology Manager is prohibited. If an employee desires to install any new programs, written permission should first be obtained. Software should not be downloaded from the Internet. This is a common mechanism for the introduction of computer viruses. If Internet-based software is needed, the Information Technology Manager should be contacted to perform the download and testing of the application prior to installation.

Other Prohibited Uses

Other prohibited uses of the Organization's communications systems include, but are not limited to:

1. Engaging in any communication that is discriminatory, defamatory, pornographic, obscene, racist, and sexist or that evidences religious bias, or is otherwise of a derogatory nature toward any specific person, or toward any race, nationality, gender, marital status, sexual orientation, religion, disability, physical characteristic, or age group.
2. Browsing, downloading, forwarding and/or printing pornographic, profane, discriminatory, threatening or otherwise offensive material from any source including, but not limited to, the Internet.
3. Engaging in any communication that is in violation of Federal, state or local laws.
4. Proselytizing or promoting religious beliefs or tenets.
5. Campaigning for or against any candidate for political office or any ballot proposal or issue.
6. Sending, forwarding, redistributing or replying to "chain letters."
7. Using unauthorized passwords to gain access to another user's information or communications on the Organization's systems or elsewhere.
8. Advertising, solicitation or other commercial, non-programmatic use.
9. Knowingly introducing a computer virus into the communications systems or otherwise knowingly causing damage to the systems.

10. Using the systems in a manner that interferes with normal business functions in any way, including but not limited to, streaming audio from the Internet during business hours, stock tickers, Internet gaming, installing unauthorized software, etc.
11. Excessive personal use of technologies that preempts any business activity or interferes with organizational productivity.
12. Sending email messages under an assumed name or obscuring the origin of an email message sent or received.

Disciplinary Action for Violations

Next Door Foundation requires all users to adhere to this policy. Violations of this policy will result in disciplinary action, which could include termination of employment or cancellation of contracts.

Reporting of Suspected Violations

Suspected violations of these policies should be immediately and confidentially reported to your immediate supervisor. If you prefer not to discuss it with your supervisor, you may contact the Executive Director or any member of the Finance and Administrative Committee.

Next Door Foundation reserves the right to install programs that monitor employee use of the Internet and electronic communications systems, and to act on any violations of these policies found through use of such programs. Next Door Foundation further reserves the right to examine any and all electronic communications sent or received by employees via the Organization's electronic communications systems.

GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is the collection of all asset, liability, net assets, revenue and expense accounts. It is used to accumulate all financial transactions and is supported by subsidiary ledgers that provide details for certain accounts. The general ledger is the foundation for the accumulation of data and production of reports.

Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system and the basis for the accounting system. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions and the impact of these transactions on each asset, liability, net asset, revenue, expense, and gain and loss account.

Next Door Foundation's chart of accounts is comprised of six types of accounts:

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

Distribution of Chart of Accounts

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

Control of Chart of Accounts

The Controller monitors and controls the chart of accounts, including all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the Controller, who ensures that the chart of accounts is consistent with the Organizational structure of Next Door Foundation and meets the needs of each division and department.

Account Definitions

General Ledger
Account Range
1000 - 1999

Category
Assets

Definition

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

Current assets are assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments, and receivables that will be collected within one year of the statement of financial position date.

Fixed assets (property and equipment) are tangible assets with a useful life of more than one year that are acquired for use in the operation of the Organization and are not held for resale.

Contra-assets are accounts that reduce asset accounts, such as accumulated depreciation and reserves for uncollectible accounts receivable

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

2000 – 2999

Liabilities

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

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

Long-Term Liabilities are probable sacrifices of economic benefits that will likely occur more than one year from the date of the financial statements. An example is the non-current portion of a mortgage loan.

3000 - 3999	Net Assets	<u>Net Assets</u> is the difference between total assets and total liabilities.
4000 - 4999	Revenues	<u>Revenues</u> are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an organization's ongoing major or central operations. Revenues include grants received from government agencies, private foundations and corporations, and contributions received from donors.
5000 - 5999	Expenses	<u>Expenses</u> are outflows or other activities using assets, or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute Next Door Foundation's ongoing major or central operations.
6000 – 6999	Gains and Losses	<p><u>Gains</u> are increases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Organization except those that result from revenues.</p> <p><u>Losses</u> are decreases in net assets from peripheral or incidental transactions and from all other transactions and other events and circumstances affecting the Organization except those that result from expenses.</p> <p>Gains or losses occur when Next Door Foundation sells a fixed asset or writes off as worthless a fixed asset with remaining book value.</p>

Changes to the Chart of Accounts

The Controller shall approve additions to, deletions from, or any other changes to the standard chart of accounts.

Fiscal Year of Organization

Next Door Foundation shall operate on a fiscal year that begins on July 1st and ends on June 30th. Any changes to the fiscal year of the Organization must be ratified by majority vote of Next Door Foundation's Board of Directors.

Accounting Estimates

Next Door Foundation utilizes numerous estimates in the preparation of its interim and annual financial statements. Some of those estimates include:

1. Useful lives of property and equipment
2. Fair market values of investments
3. Fair market values of donated assets
4. Values of contributed services
5. Joint cost allocations
6. Allocations of certain joint costs
7. Allocations of time/salaries

The Controller will reassess, review, and approve all estimates yearly. All key conclusions, bases, and other elements associated with each accounting estimate shall be documented in writing. All material estimates, and changes in estimates from one year to the next, shall be disclosed to the Finance Committee, the Finance and Administrative Committee, and the external audit firm.

Journal Entries

All general ledger entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, including an explanation of each such entry. Examples of such journal entries are:

1. Recording of noncash transactions
2. Corrections of posting errors
3. Nonrecurring accruals of income and expenses

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Depreciation of fixed assets
2. Amortization of prepaid expenses
3. Accruals of recurring expenses
4. Amortization of deferred revenue

Recurring journal entries shall be supported by a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, a journal voucher.

All journal entries not originating from subsidiary ledgers shall be authorized in writing by the Controller by initialing or signing the entries.

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

REVENUE

Revenue Recognition Policies

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

1. **Grant income** - Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards).
2. **In-Kind Contributions** – Recognized as income when received. (See below the section titled “Cost Sharing and Matching”).
3. **Program Income** – Includes refunds and other applicable credits, and is recognized as a reduction in expenditures in the period in which it is received.
4. **Nongovernmental Cash Contributions** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income).

Immaterial categories of revenue may be recorded on the cash basis of accounting (i.e., recorded as revenue when received) as deemed appropriate by the Controller.

Definitions

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

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

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

Restriction – A donor-imposed stipulation that specifies a use for the contributed asset that is either limited to a specific future time period or is more specific than the broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in the Articles of Incorporation and Bylaws. Restrictions on the use of an asset may be temporary or permanent.

Nonreciprocal Transfer – A transaction in which an entity incurs a liability or transfers assets to Next Door Foundation without directly receiving value in exchange.

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

Exchange Transaction – A reciprocal transaction in which Next Door Foundation and another entity each receive and sacrifice something of approximately equal value.

ADMINISTRATION OF FEDERAL AWARDS

Definitions

Next Door Foundation may receive financial assistance from a donor/grantor agency through the following types of agreements:

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

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

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

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

Preparation and Review of Proposals

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

1. Grant applications greater than \$25,000 will be approved by the Board.
2. Finance & Administration Committee will approve acceptance of all grants.
3. The full Board will be involved in all decisions concerning new funding sources.

Post-Award Procedures

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

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

Compliance with Laws, Regulations and Provisions of Awards

Next Door Foundation recognizes that as a recipient of Federal funds, the Organization is responsible for compliance with all applicable laws, regulations, and provisions of contracts and grants. To ensure that the Organization meets this responsibility, the following policies apply with respect to every grant or contract received directly or indirectly from a Federal agency:

1. For each Federal award, an employee within the department responsible for administering the award will be designated as "grant manager."
2. Each grant manager shall attend a training on grant management prior to beginning his/her role as a grant manager (or as early in their functioning as a grant manager as practical). Thereafter, all grant managers shall attend refresher/update courses on grant management every two years.
3. The grant manager shall take the following steps to identify all applicable laws, regulations, and provisions of each grant and contract:
 - a. Read each award and prepare a summary of key compliance requirements and references to specific laws and regulations.
 - b. Review the "OMB Circular A-133 Compliance Supplement" (updated annually) published by the Office of Management and Budget (OMB) for compliance requirements unique to the award and for compliance requirements common to all Federal awards.
 - c. Review the section of the Catalog of Federal Domestic Assistance (CFDA) applicable to the award.
 - d. The grants manager will communicate grant requirements to those who will be responsible for carrying them out, or impacted by them.
4. The Fiscal Department shall forward copies of applicable laws regulations to the grant manager (such as OMB Circulars, pertinent sections of compliance supplements, and other regulations).
5. The grant manager and/or the Fiscal Department shall identify and communicate any special changes in policies and procedures necessitated by Federal awards as a result of the review of each award.
6. The grant manager shall take all reasonable steps necessary to identify applicable changes in laws, regulations, and provisions of contracts and grants. Steps taken in this regard shall include, but not be limited to, reviewing subsequent grant and contract renewals, reviewing annual revisions to the "OMB Circular A-133 Compliance Supplement," and communications with Federal awarding agency personnel.
7. The grant manager shall inform the independent auditors of applicable laws, regulations, and provisions of contracts and grants. The grant manager shall also communicate known instances of noncompliance with laws, regulations, and provisions of contracts and grants to the auditors.

Close Out of Federal Awards

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

Next Door Foundation and all subrecipients shall liquidate all obligations incurred under the grant or contract within 90 days of the end of the grant or contract agreement.

COST SHARING AND MATCHING (IN-KIND)

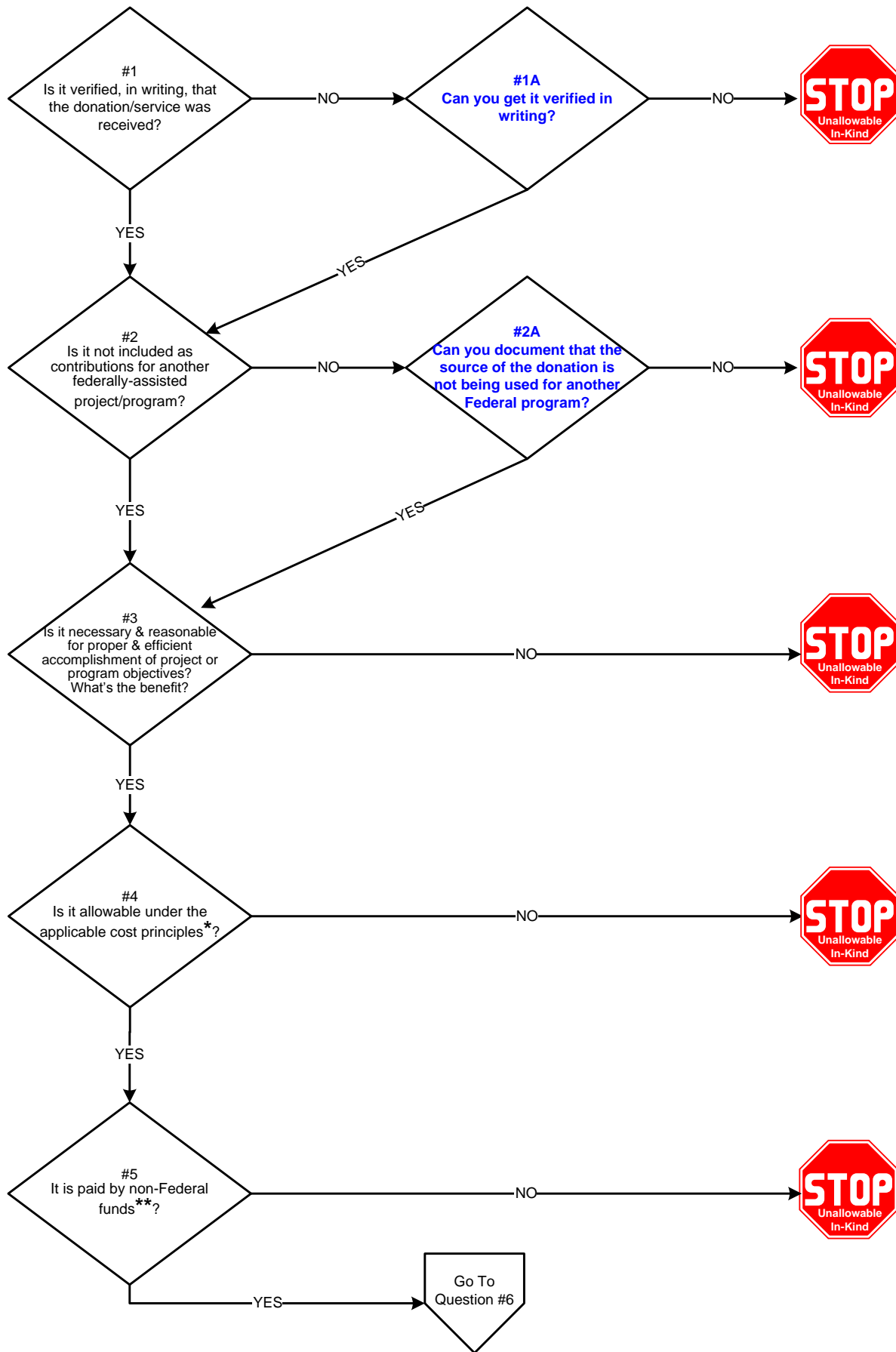
Overview

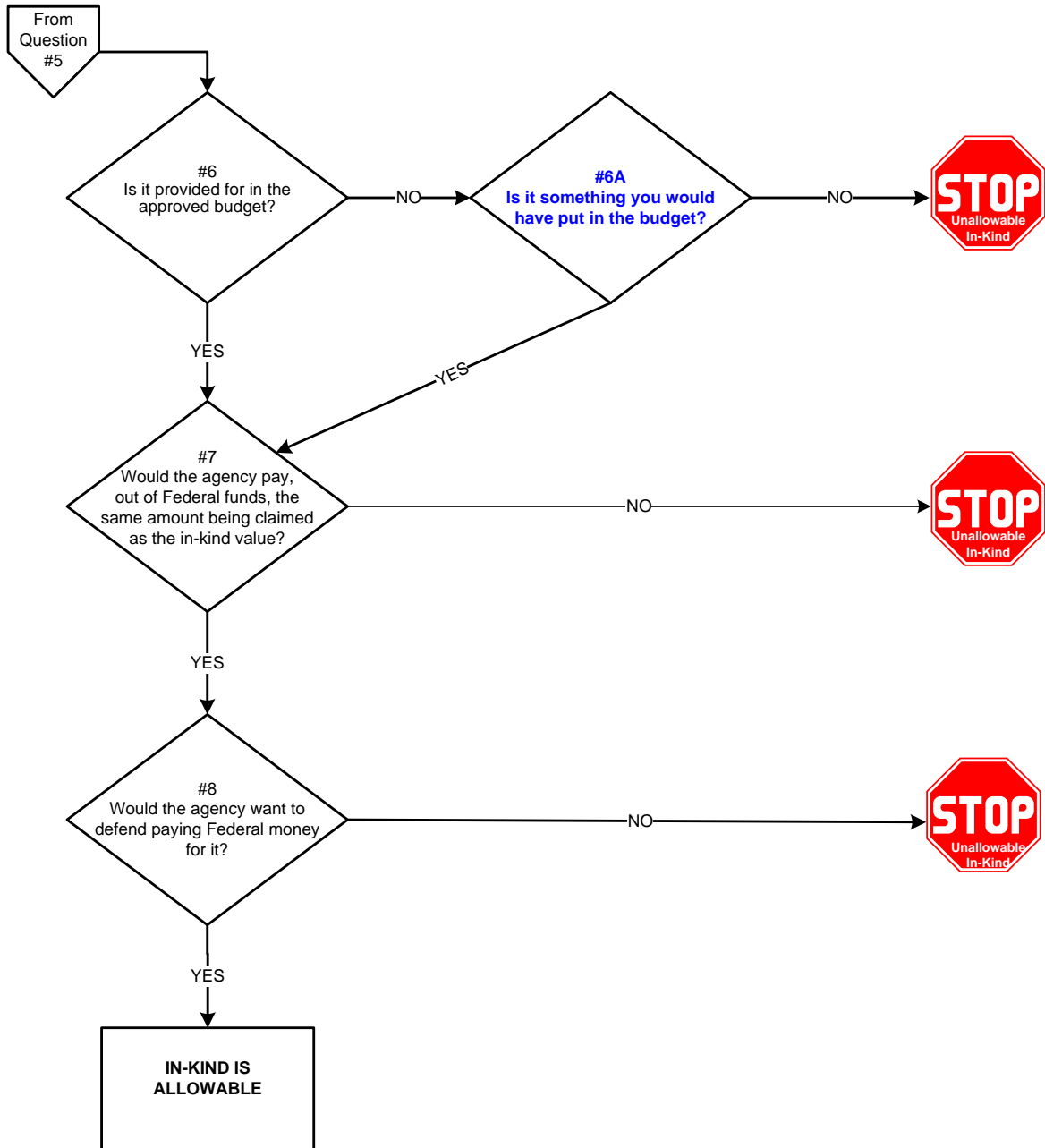
Next Door Foundation values contributed services and property that are to be used to meet a cost sharing or matching requirement at their fair market values at the time of contribution, unless award documents or Federal agency regulations identify specific values to be used.

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

1. They are verifiable from Next Door Foundation records.
2. They are not included as contributions for any other Federally-assisted project or program.
3. They are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
4. They are allowable under OMB Circular A-122.
5. They are not paid by the Federal government under another award, except where authorized by Federal statute to be used for cost sharing or matching.
6. They are provided for in the approved budget when required by the Federal awarding agency.
7. They conform to all provisions of OMB Circular A-110.
8. In the case of donated space, (or donated use of space), the space is subject to an independent appraisal to establish its value.

The following flowchart should be used to determine the allowability of in-kind.





* OMB Circular A-21 - Colleges and Universities, OMB Circular A-87 - State and Local Units of Government, A-122 - Non-Profit Organizations

** Except where authorized by Federal statute to be used for cost sharing or matching: Determinations have been made on a case-by-case basis on whether Federal funds from other programs are allowable match for an ACF program. These determinations are based on specific requirements of ACF programs and language in applicable statutes. Specifically:

1. USDA funds are of Federal origin and, therefore, cannot be counted as match.
2. Bureau of Indian Affairs - Indian Self-Determination and Education Assistance Act (P.L. 93-638, as amended). The Act authorizes the use of funds for matching purposes as long as the identified use is specifically related to the approved grant activities.
3. Title XX Social Services Block Grant funds are considered to be Federal funds and, therefore, may not be used as match for ACF programs.
4. Expenditure of funds from the Housing and Community Development Act of 1974, P.L. 93-383 may count as allowable match for a Head Start program for renovation of a building. The determination is dependent on whether or not the Head Start grant is included as part of the "Community Development Program," as required by the Housing and Community Development Act. (Grants Administration Manual, Section 3.05.408(b)(1-4))

Valuation and Accounting Treatment

In-kind typically falls into one of the following categories:

- Cash
- Space, buildings, land and equipment
- Volunteer time and services
- Supplies

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

Cash

- Next Door Foundation shall recognize cash contributions as in-kind income in the period in which they are spent on allowable program costs.
- Any discounts received on goods or services are recognized as in-kind only if such discounts are not available to the general public.

Space, Buildings, Land and Equipment

Buildings and Land

If the purpose of the contribution is to assist the Organization in the acquisition of equipment, building, or land, the total value of the donated property may be claimed as matching with prior approval of the awarding agency.

If the purpose of the donation is to support activities that require the use of equipment, buildings or land, depreciation or use charges (e.g. rent) may be claimed at matching, unless the awarding agency has approved using the full value as match.

Equipment, buildings or land are valued at its fair market value as determined by an independent appraiser. Information on the date of donation and records from the appraisal will be maintained in a property file.

Space:

- Will be valued at the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality
- Information on the date of donation and records from the appraisal will be maintained in a property file
- If less than an arms-length transaction, will be valued based in actual allowable costs not to exceed fair market value

Volunteer Time and Services

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor will be included in in-kind if the services are an integral and necessary part of the program.

Examples of contributed services received and recorded as income and expense by Next Door Foundation include classroom volunteers, medical and dental services.

Volunteer services will be valued at rates consistent with those paid for similar work in the Organization. For skills not found in the Organization, rates will be consistent with those paid for similar work in our labor market. Rates should include gross hourly wages plus fringe benefits calculated based on fringe benefits received by employees in similar positions, or on agency average.

Volunteers must possess qualifications and perform work requiring those skills in order to be valued at greater than an unskilled labor rate.

Next Door Foundation requires volunteers to document and account for their contributed time in a manner similar to the timekeeping system followed by employees. Each program that uses volunteers will provide the volunteers a sign-in sheet which collects the following information:

- Date service was performed
- Volunteer name and address
- Hours donated
- Service provided
- Signature of volunteer

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

Supplies

Donated supplies must be used in the program and shall be valued at fair market value at the time of donation. Supplies can be counted as match only if the program would have purchased such items itself.

CONTRIBUTIONS RECEIVED

Overview

Next Door Foundation shall accept charitable contributions of all types of assets from any type of donor, with the following exceptions:

1. Contributions of non-liquid assets or assets possessing legal or other characteristics rendering the asset difficult to sell or convert to liquid assets, as determined by the Controller;
2. Contributions with donor-imposed restrictions that provide excessive control to the donor over future uses of the donated asset(s), as determined by the Controller;
3. Contributions with donor-imposed restrictions that violate or involve uses that go beyond the Organization's current mission statement and tax-exempt purpose, as determined by the Controller; and
4. Contributions from donors involved in businesses or activities that are deemed inconsistent with Next Door Foundation's mission, as determined by the Executive Director.

Distinguishing Contributions from Exchange Transactions

Next Door Foundation receives income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. Next Door Foundation shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. Next Door Foundation's intent in soliciting the asset, as stated in the accompanying materials;
2. The expressed intent of the entity providing resources to Next Door Foundation (i.e., does the resource provider state that its intent is to support Next Door Foundation's programs or that it anticipates specified benefits in exchange?);
3. Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of Next Door Foundation (contribution);
4. Whether payment received by Next Door Foundation is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by Next Door Foundation, or the cost of those assets plus a markup (exchange transaction);
5. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution); and

6. Whether assets are to be delivered by Next Door Foundation to individuals or organizations other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or organizations closely connected to the resource provider.

Unconditional Promises to Give

- Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) in the period that Next Door Foundation receives the promise.
- Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management.
- Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value.
- Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to Next Door Foundation at the time the Organization receives a promise from a donor.
- When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets shall be recorded.

Receipts and Disclosures

Next Door Foundation and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and the underlying regulations. To comply with those rules, Next Door Foundation shall adhere to the following guidelines with respect to contributions received by the Organization.

The Fiscal Department shall provide a receipt to the donor for every separate contribution received. All receipts shall include the following information:

1. The amount of cash received and/or a description (but not an assessment of the value) of any noncash property received;
2. A statement of whether Next Door Foundation provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received, and
3. If any goods or services were provided to the donor by Next Door Foundation, a description and good faith estimate of the value of those goods or services.

Next Door Foundation complies with all current Federal and state rules regarding solicitation and collection of charitable contributions, whether specifically addressed in this manual or not, as well as all future revisions to those rules.

Disclosures of Promises to Give

As stated earlier, Next Door Foundation shall record an asset and an increase in net assets for unconditional promises to give. In addition, in connection with its annual financial statements, Next Door Foundation shall prepare a schedule of unconditional promises to give that discloses the annual amounts to be collected in each of the next five fiscal years, and a total amount due thereafter, less the amount representing interest as a result of discounting long-term promises to give to net present value.

In connection with conditional promises to give, which shall not be recorded on the financial statements, Next Door Foundation shall nonetheless prepare a similar schedule of future payments for disclosure in the Organization's annual financial statements.

BILLING/INVOICING POLICIES

Overview

The Organization's primary sources of revenue are:

- Reimbursement grants – billed monthly, or as funders require, based on allowed, incurred expenses
- Fee-for-service income – billed according to contract requirements based on number of units of services provided

Other lesser sources of income such as transportation fees, meal charges or child care fees will be collected and recorded when the services are provided.

Responsibilities for Billing and Collection

Next Door Foundation's Fiscal Department is responsible for the invoicing of funding sources and the collection of outstanding receivables. (Note: Cash receipts, credit memo, and collection policies will be discussed in subsequent sections.)

Billing and Financial Reporting

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

Next Door Foundation shall prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports shall be the responsibility of the Senior Accountant and the Assistant Accountant, subject to review and approval by Controller.

The following policies shall apply to the preparation and submission of billings to Federal agencies under awards made to Next Door Foundation:

1. The Organization will request reimbursement after expenditures have been incurred, unless an award specifies another method.
2. Next Door Foundation will strive to minimize the time between receipt and disbursement of grant funds by issuing payments within 24 hours of receipt of such funds.
3. Each award normally specifies a particular billing cycle. Therefore, a schedule is established for each grant and contract to ensure that reimbursement is made on a timely basis along with any other reporting that is required in addition to the financial reports.
4. Requests for reimbursement of award expenditures will use the actual amounts as posted to the general ledger as the source for all invoice amounts.

5. All financial reports required by each Federal award will be prepared and filed on a timely basis. To the extent Next Door Foundation's year-end audit results in adjustments to amounts previously reported to Federal agencies, revised reports shall be prepared and filed in accordance with the terms of each Federal award.

Next Door Foundation shall maintain separate billing records in addition to the official general ledger accounting records. Billing records shall be reconciled to the general ledger on a monthly basis.

At the time invoices (requests for reimbursement) are prepared, revenue and accounts receivable shall be recorded on the books of Next Door Foundation by the Senior Accountant.

If a Federal award authorizes the payment of cash advances to Next Door Foundation, the Controller may require that a request for such an advance be made. Upon receipt of a cash advance from a Federal agency, Next Door Foundation shall reflect a liability equal to the advance. As part of the monthly close-out and invoicing process, the liability shall be reduced, and revenue recognized, in an amount equal to the allowable costs incurred for that period.

Cash Drawdowns Under Letters of Credit

Cash drawdowns under letters of credit from Federal agencies shall be made bi-weekly in conjunction with the accounts payable and payroll schedule, based on need. All Federal funds shall be deposited into an interest-bearing cash account under the cash receipts policies and procedures described in this manual. Next Door Foundation requires that Federal funds will be disbursed within 24 hours of receipt using the following process:

1. The Payroll/Accounts Payable Specialist will print out a listing of checks to be disbursed
2. The Controller approves the listing
3. The Accountant draws down the cash required
4. The checks are printed, signed and disbursed in accordance with cash disbursement policies.

Accounts Receivable Entry Policies

Individuals independent of the cash receipts function shall post customer invoices, credit adjustments, and other adjustments to the accounts receivable subsidiary ledger.

Classification of Income and Net Assets

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

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

From time to time, Next Door Foundation may raise other forms of contribution income which carry stipulations that the Organization utilize the funds for a specific purpose or within a specified time period identified by the donor of the funds. When this form of contribution income is received, Next Door Foundation shall classify this income as Temporarily Restricted income.

As with all Temporarily Restricted net assets, when the restriction associated with a contribution has been met (due to the passing of time or the use of the resource for the purpose designated by the donor), Next Door Foundation will reclassify the related net assets from "Temporarily Restricted" to "Unrestricted" in its Statement of Financial Position and reflect this reclassification as an activity in its Statement of Activities.

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

CASH RECEIPTS

Overview

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

Processing of Checks and Cash Received in the Mail

The following procedures will be followed:

- Cash receipts are received in a central location, to ensure that cash received is appropriately directed, recorded, and deposited on a timely basis.
- Mail is opened and a listing of cash/checks received shall be prepared in an open area, in the presence of other employees, and under the supervision of a senior Fiscal Department representative.
- The individual preparing the daily list of receipts shall be someone that is not involved in the accounts receivable or accounts payable process.
- A deposit slip is prepared from the cash/checks received and compared to the daily receipts listing for discrepancies.
- Deposits are prepared and taken to the bank by an individual other than the employee who prepared the daily cash receipts listing.

Endorsement of Checks

All checks received that are payable to the Organization shall immediately be restrictively endorsed by the individual who prepares the daily receipts listing. The restrictive endorsement shall be a rubber stamp that includes the following information:

1. For Deposit Only
2. Next Door Foundation
3. The bank name
4. The bank account number of Next Door Foundation

Timeliness of Bank Deposits

Bank deposits will be made on a daily basis, unless the total amount received for deposit is less than \$500. In no event shall deposits be made less frequently than weekly.

Reconciliation of Deposits

On a periodic basis, the Controller, who does not prepare the initial cash receipts listing or bank deposit, shall reconcile the listings of receipts to bank deposits on the monthly bank statement. Any discrepancies shall be immediately investigated.

GRANTS RECEIVABLE MANAGEMENT

Monitoring and Recognition

Next Door Foundation records grants receivable and income as follows:

1. Upon receipt of the grant, the entire grant will be recorded as a receivable and as deferred revenue, a current liability.
2. During the year, when cash is received for expenses incurred, the deferred revenue account is reduced and the cash is recorded as grant income.
3. In order to comply with GAAP requirements, At the end of the fiscal year, the remaining deferred amount will offset the remaining receivable, and advance will be recorded as deferred revenue.

Therefore, management and the board will be able to monitor the progress of the entire grant at any time during the year.

ACCOUNTS RECEIVABLE MANAGEMENT

Monitoring and Reconciliations

On a monthly basis, the Fiscal Department will reconcile a detailed accounts receivable report (showing aged, outstanding invoices by customer) to the general ledger. The Controller will review the reconciliation and ensure that all differences are immediately investigated and resolved.

Credits and Other Adjustments to Accounts Receivable

From time to time, credits against accounts receivable from transactions other than payments and bad debts will occur. Examples of other credits include returned products and adjustments for billing errors. An employee who is independent of the cash receipts function will process credits and adjustments to Accounts Receivable, and all credits shall be authorized by the Controller.

Accounts Receivable Write-Off Authorization Procedures

All available means of collecting accounts receivable will be exhausted before write-off procedures are initiated. Write-offs are initiated by the department associated with the amount to be written off, in conjunction with the Fiscal Department. If an account receivable is deemed uncollectible, the following approvals are required before the write-off is processed:

<u>Amount</u>	<u>Authorized in writing by</u>
Less than \$1,000	Controller
\$1,000 or more	Controller/VP of Administration

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

If write-off procedures have been initiated, the following accounting treatment applies:

1. Current year invoices that are written off will either be charged against an appropriate revenue or revenue adjustment account, or against the original account credited.
2. Invoices written off that are dated prior to the current year will be written off against net assets.

POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS

PURCHASING POLICIES AND PROCEDURES

Overview

THE POLICIES DESCRIBED IN THIS SECTION APPLY TO ALL PURCHASES MADE BY NEXT DOOR FOUNDATION.

Next Door Foundation requires the practice of ethical, responsible, and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

The goal of these procurement policies is to ensure that materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders.

Responsibility for Purchasing

All department heads or their designees shall have the authority to initiate purchases on behalf of their department, within the guidelines described here. Department directors shall inform the Fiscal Department of all individuals that may initiate purchases or prepare purchase orders. The Fiscal Department shall maintain a current list of all authorized purchasers.

The Fiscal Department shall be responsible for processing purchase orders. The Controller has approval authority over all purchases and contractual commitments, and shall make the final determination on any proposed purchases where budgetary or other conditions may result in denial.

Code of Conduct in Purchasing (A-110_40)

Ethical conduct in managing the Organization's purchasing activities is absolutely essential. Staff must always be mindful that they represent the Board of Directors and share a professional trust with other staff and the general membership.

- Staff shall discourage the offer of, and decline, individual gifts or gratuities of value in any way that might influence the purchase of supplies, equipment, and/or services.
- Staff shall notify their immediate supervisor if they are offered such gifts.
- No officer, board member, employee, or agent shall participate in the selection or administration of a vendor if a real or apparent conflict of interest would be involved. Such a conflict would arise if an officer, board member, employee or agent, or any member of his/her immediate family, his/her spouse/partner, or an organization that employs or is about to employ any of the parties indicated herein, has a financial or other interest in the vendor selected.

- Officers, board members, employees, and agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from vendors or parties to sub-agreements.
- Unsolicited gifts of a nominal value of \$25 or less may be accepted with the approval of the Executive Director.

Competition (A-110_43)

In order to promote open and free competition, purchasers will:

- Be alert to any internal potential conflicts of interest.
- Be alert to any noncompetitive practices among contractors that may restrict, eliminate or restrain trade.
- Not permit contractors who develop specifications, requirements or proposals to bid on such procurements.
- Award contracts to bidders whose product/service is most advantageous in terms of price, quality and other factors.
- Issue solicitations that clearly set forth all requirements to be evaluated.
- Reserve the right to reject any and all bids when it is in the Organization's best interest.

Non-Discrimination Policy

All vendors/contractors who are the recipients of Organization funds, or who propose to perform any work or furnish any goods under agreements with Next Door Foundation, shall agree to these important principles:

1. Vendors/contractors will not discriminate against any employee or applicant for employment because of race, religion, color, sexual orientation or national origin, except where religion, sex, or national origin is a bona fide occupational qualification reasonably necessary to the normal operation of the vendors/contractors.
2. Vendors/contractors agree to post in conspicuous places, available to employees and applicants for employment, notices setting forth the provisions of this nondiscrimination clause. Notices, advertisement and solicitations placed in accordance with Federal law, rule, or regulation shall be deemed sufficient for meeting the intent of this section.

Procurement Procedures

The following are Next Door Foundation's procurement procedures:

1. Next Door Foundation shall avoid purchasing items that are not necessary for the performance of the activities required by a Federal award. (A-110_44(1))
2. Where appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal government. (A-110_44(2)) This analysis should only be made when both lease and purchase alternatives are available to the program.

3. Some form of cost or price analysis shall be made for every procurement. Price analysis may be made in various ways, including comparison of price quotations submitted or market prices. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. (A-110_45)
4. Documentation of the cost and price analysis associated with each procurement decision shall be retained in the procurement files pertaining to each Federal award. (A-110_46)
5. For all procurements in excess of the small purchase acquisition threshold (\$100,000 in 2005), procurement records and files shall be maintained the include all of the following:
 - a. The basis for contractor selection.
 - b. Justification for lack of competition when competitive bids or offers are not obtained.
 - c. The basis for award cost or price.
6. Next Door Foundation shall make all procurement files available for inspection upon request by a Federal awarding agency.
7. All contracts with vendors shall require the vendor to certify in writing that it has not been suspended or disbarred from doing business with any Federal agency. (Alternatively, the Organization may research potential vendors on the Excluded Parties List at the GSA\ website.)
8. Next Door Foundation shall not utilize the "cost-plus-a-percentage-of-costs method of contracting. (A-110_44(3)(c))

All staff members with the authority to approve purchases will receive a copy of and be familiar with A-110, federal cost principles.

Use of Purchase Orders/Check Request

Next Door Foundation utilizes a purchase order/check request system. A properly completed purchase order/check request shall be required for each purchase decision, with the exception of travel advances and expense reimbursements, which require the preparation of a separate form described elsewhere in this manual. A properly completed purchase order/check request shall contain the following information, at a minimum:

1. Specifications or statement of services required
2. Vendor name, address, point of contact and phone number
3. Source of funding (if applicable)
4. Delivery or performance schedules
5. Delivery, packing and transportation requirements
6. Special conditions (if applicable)
7. Catalog number, page number, etc. (if applicable)
8. Net price per unit, less discount, if any

9. Total amount of order
10. Authorized signature
11. Date purchase order/check request was prepared

Purchase orders shall be pre-numbered from the accounting system, and issued upon request from an authorized purchaser. Check requests are used to issue check for vendors who do not issue an invoice i.e., hotels, subscriptions, conference fees etc. Checks are issued upon a request from an authorized purchaser.

At the end of each accounting period, an aged outstanding purchase order report shall be prepared and distributed to each purchasing representative and the Controller.

Authorizations and Purchasing Limits

All completed purchase orders must be signed by the preparer and approved by the Department Director. The following table displays required approvals and solicitations:

Amount of Purchase	Required Approvals	Required Solicitation
< \$1,000	Department Director Fiscal Director	2 oral bids
\$1,000 ≤ \$5,000	Department Director Fiscal Director VP of Administration	2 oral or written bids
\$5,001 ≤ \$25,000	Department Director Fiscal Director VP of Administration or Executive Director	3 written bids
\$25,001 ≤ \$100,000	Fiscal Director VP of Administration or Executive Director F&A Committee	3 written bids
> \$100,000	Fiscal Director VP of Administration or Executive Director F&A Committee Board of Directors	3 written bids

The Executive Director is authorized to enter into any contract on behalf of Next Door Foundation. Contracts of \$5,000 or less must be reviewed and approved by the Department Director and the Fiscal Director and the VP of Administration, but do not require approval from the Executive Director. These policies shall also apply to renewals of existing contracts.

Required Solicitation of Quotations from Vendors

Solicitations for goods and services (requests for proposals or RFPs) should provide for all of the following:

1. A clear and accurate description of the technical requirements for the material, product or service to be procured. Descriptions shall not contain features which unduly restrict competition. *(A-110_44(a)(3)(i))*
2. Requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals (see the next section entitled "Evaluation of Alternative Vendors" for required criteria) *(A-110_44(a)(3)(ii))*
3. Technical requirements in terms of functions to be performed or performance required, including the range of acceptable characteristics or minimum acceptable standards. *(A-110_44(a)(3)(iii))*
4. The specific features of "brand name or equal" descriptions that bidders are required to meet when appropriate. *(A-110_44(a)(3)(iv))*
5. The acceptance, to the extent practical, of products and services dimensioned in the metric system of measurement. *(A-110_44(a)(3)(v))*
6. Preference, to the extent practical, for products and services that conserve natural resources and protect the environment and are energy efficient. *(A-110_44(a)(3)(vi))*
7. Preference for recycled products pursuant to EPA guidelines. *(A-110_16)*
8. A description of the format, if any, in which proposals must be submitted, including the name of the person to whom proposals should be sent.
9. The date by which proposals are due.
10. Required delivery or performance dates/schedules.
11. Clear indications of the quantity(ies) requested and unit(s) of measure.

Extensions of Due Dates and Receipt of Late Proposals

Solicitations should provide for sufficient time to permit the preparation and submission of offers before the specified due date. However, an extension may be granted if a prospective offeror so requests.

Vendor proposals are considered late if received after the due date and time specified in the solicitation. Late proposals shall be so marked on the outside of the envelope and retained, unopened, in the procurement folder. Vendors that submit late proposals shall be sent a letter notifying them that their proposal was late and could not be considered for award.

Evaluation of Alternative Vendors

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

1. Adequacy of the proposed methodology
2. Skill and experience of key personnel
3. Demonstrated experience
4. Other technical specifications designated by department requesting proposals
5. Compliance with administrative requirements of the request for proposal (format, due date, etc.)
6. Vendor's financial stability
7. Vendor's demonstrated commitment to the nonprofit sector
8. Results of communications with references supplied by vendor
9. Ability/commitment to meeting time deadlines
10. Cost
11. Minority- or women-owned business status of vendor
12. Other criteria (to be specified by department requesting proposal)

Not all of the preceding criteria may apply in each purchasing scenario. However, the department responsible for the purchase shall establish the relative importance of the appropriate criteria prior to requesting proposals and shall evaluate each proposal on the basis of the criteria and weighting that have been determined.

After a vendor has been selected and approved by the Department Director, the final selection shall be approved by the Executive Director prior to entering into a contract.

Affirmative Consideration of Minority, Small Business & Women-Owned Businesses

(A-110_44(3)(b))

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

1. Ensure that small business, minority-owned firms, and women's business enterprises are used to the fullest extent practicable. *(A-110_44(3)(b)(1))*
2. Make information on forthcoming opportunities available and arrange time frames for purchases and contracts to encourage and facilitate participation by small business, minority-owned firms and women's business enterprises. *(A-110_44(3)(b)(2))*
3. Consider in the contract process whether firms competing for larger contracts tend to subcontract with small businesses, minority-owned firms and women's business enterprises. *(A-110_44(3)(b)(3))*
4. Encourage contracting with consortiums of small businesses, minority owned firms and women's business enterprises when a contract is too large for one of these firms to handle individually. *(A-110_44(3)(b)(4))*

5. Use the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Department of Commerce's Minority Business Development Agency in the minority-owned firms and women's business enterprises. (A-110_44(3)(b)(5))

Availability of Procurement Records (A-110_44(3)(e))

Next Door Foundation shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as requests for proposals, when any of the following conditions apply:

- The process does not comply with the Next Door Foundation's procurement standards (A-110_44(3)(e)(1))
- The procurement is expected to exceed the small purchase threshold (\$100,000 in 2005) and is to be awarded without competition or only one bid is received (A-110_44(3)(e)(2))
- The procurement exceeds the small purchase threshold and specifies a "name brand" product (A-110_44(3)(e)(3))
- The proposed award exceeds the small purchase threshold and is to be awarded to other than the apparent low bidder under a sealed bid procurement. (A-110_44(3)(e)(4))
- A proposed contract modification changes the scope of a contract or increases the contract amount by more than the amount of the small purchase threshold. (A-110_44(3)(e)(5))

Provisions Included in All Contracts (A-110 Appendix A)

Next Door Foundation includes all of the following provisions, as applicable, in all contracts charged to Federal awards (including small purchases) with vendors and subgrants to grantees:

1. **Equal Employment Opportunity:** All contracts shall contain a provision requiring compliance with E.O. 11246, "Equal Employment Opportunity," as amended by E.O. 11375, "Amending Executive Order 11246 Relating to Equal Employment Opportunity," and as supplemented by regulations at 41 CFR part 60, "Office of Federal Contract Compliance Programs, Equal Employment Opportunity, Department of Labor."
2. **Copeland "Anti-Kickback" Act (18 U.S.C. 874 and 40 U.S.C. 276c):** All contracts and subgrants in excess of \$2,000 for construction or repair awarded by Next Door Foundation and its subrecipients shall contain a provision for compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874), as supplemented by Department of Labor regulations 29 CFR part 3, "Contractors and Subcontractors on Public Building or Public Work Financed in Whole or in Part by Loans or Grants from the United States." This Act provides that each contractor or subrecipient shall be prohibited from inducing, by any means, any person employed in the construction, completion, or repair of public work, to give up any part of the compensation to which he or she is otherwise entitled. Next Door Foundation will report all suspected or reported violations to the Federal awarding agency.
3. **Davis-Bacon Act, as amended (40 U.S.C. 276a to a-7):** If included in the Federal agency's grant program legislation, all construction contracts of more than \$2,000 awarded by Next Door Foundation and its subrecipients shall include a provision for compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) and as supplemented by Department of Labor regulations (29 CFR

part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). Under this Act, contractors are required to pay wages to laborers and mechanics at a rate not less than the minimum wages specified in a wage determination made by the Secretary of Labor. In addition, contractors shall be required to pay wages not less than once a week. Next Door Foundation will place a copy of the current prevailing wage determination issued by the Department of Labor in each solicitation and the award of a contract shall be conditioned upon the acceptance of the wage determination. Next Door Foundation shall also obtain reports from contractors on a weekly basis in order to monitor compliance with the Davis-Bacon Act. Next Door Foundation shall report all suspected or reported violations to the Federal awarding agency.

4. **Contract Work Hours and Safety Standards Act (40 U.S.C. 327-333):** [Where applicable] All contracts awarded by Next Door Foundation in excess of \$2,000 for construction contracts and in excess of \$2,500 for other contracts that involve the employment of mechanics or laborers shall include a provision for compliance with Sections 102 and 107 of the Contract Works Hours and Safety Standards Act (40 U.S.C. 327-333), as supplemented by Department of Labor regulations (29 CFR part 5). Under Section 102 of the Act, each contractor is required to compute wages of every mechanic and laborer on the basis of a standard work week of 40 hours. Work in excess of the standard work week is permissible provided that the worker is compensated at a rate of not less than 1-1/2 times the basic rate of pay for all hours worked in excess of 40 hours in the work week. Section 107 of the Act is applicable to construction work and provides that no laborer or mechanic shall be required to work in surroundings or under working conditions that are unsanitary, hazardous, or dangerous. These requirements do not apply to the purchases of supplies or materials or articles ordinarily available on the open market, or contracts for transportation or transmission of intelligence.
5. **Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act (33 U.S.C. 1251 et seq.), as amended:** Contracts and subgrants of amounts in excess of \$100,000 shall contain a provision that requires the recipient to agree to comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act (42 U.S.C. 7401 et seq.) and the Federal Water Pollution Control Act, as amended (33 U.S.C. 1251 et seq.). Violations shall be reported to the Federal awarding agency and the Regional Office of the Environmental Protection Agency (EPA).
6. **Byrd Anti-Lobbying Amendment (31 U.S.C. 1352):** For all contracts or subgrants of \$100,000 or more, Next Door Foundation shall obtain from the contractor or subgrantee a certification that it will not and has not used Federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract, grant or any other award covered by 31 U.S.C. 1352. Likewise, since each tier provides such certifications to the tier above it, Next Door Foundation shall provide such certifications in all situations in which it acts as a subrecipient of a subgrant of \$100,000 or more.
7. **Debarment and Suspension (E.O.s 12549 and 12689):** For all contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (\$100,000 in 2005), Next Door Foundation shall obtain from the contractor a certification that neither the contractor nor any of its principal employees are listed on the General Services Administration's *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*.

9. **Remedies:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (\$100,000 in 2005) shall contain contractual provisions or conditions that allow for administrative, contractual, or legal remedies in instances in which a contractor violates or breaches the contract terms.
10. **Termination:** All contracts in excess of the small purchase threshold fixed at 41 U.S.C. 403(11) (\$100,000 in 2005) shall contain suitable provisions for termination by Next Door Foundation, including the manner by which termination shall be effected and the basis for settlement. In addition, such contracts shall describe the conditions under which the contract may be terminated for default as well as conditions where the contract may be terminated due to circumstances beyond the control of the contractor.

Special Purchasing Conditions

Emergencies:

Where equipment, materials, parts, and/or services are needed, quotations will not be necessary if the health, welfare, safety, etc., of staff and protection of Organization property is involved.

Single Distributor/Source:

Sole source purchases will be made only when solicitation of multiple vendors is not feasible and one of the following conditions apply:

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

A cost/price analysis is required and approval from the funding agency may be necessary if the purchase is over the small purchase threshold.

Right to Audit Clause

Next Door Foundation requires a "Right to Audit" clause in all contracts between the Organizations and vendors that either:

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

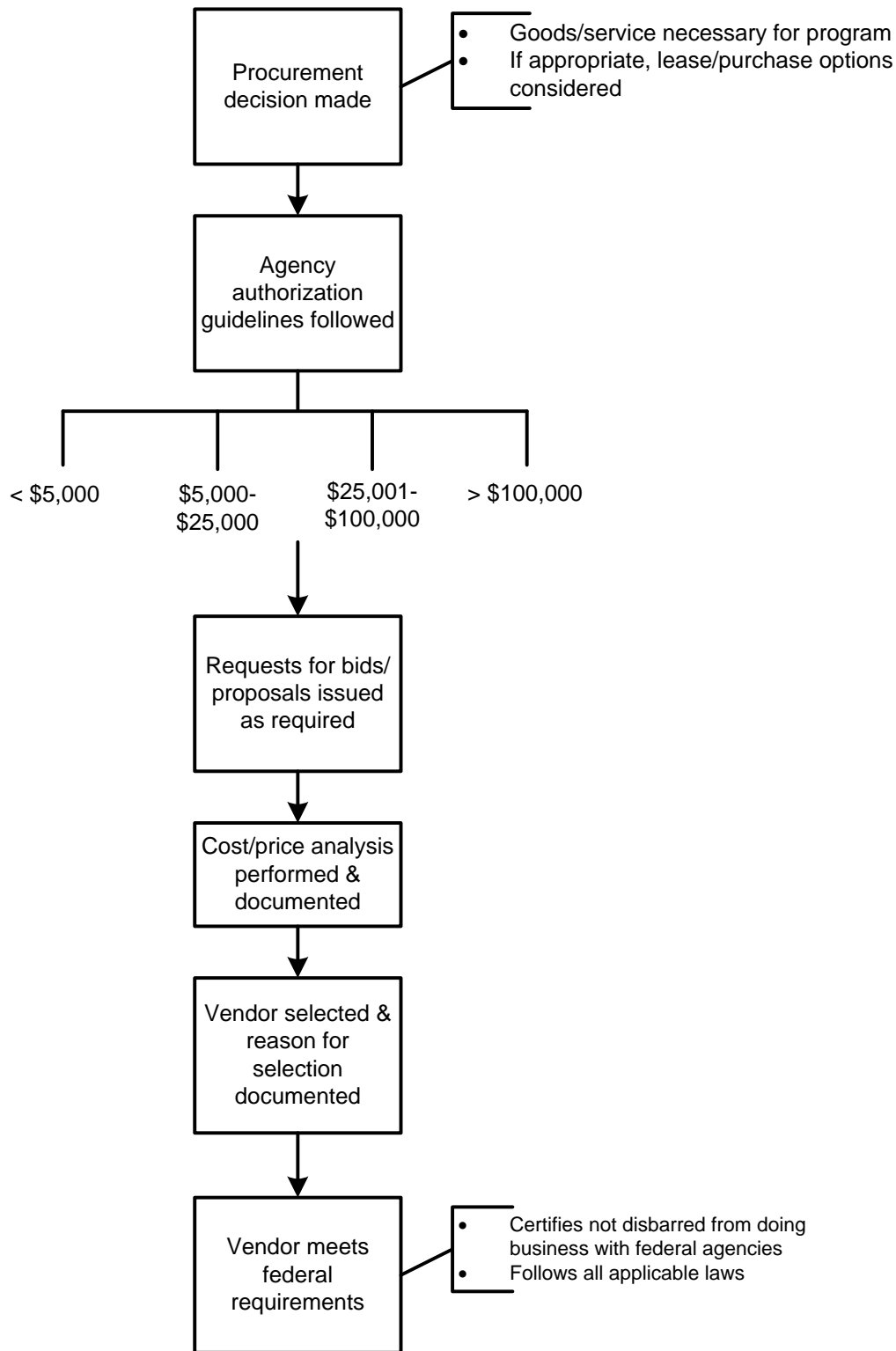
This Right to Audit clause shall permit access to and review of all documentation and processes relating to the vendor's operations that apply to Next Door Foundation, as well as all documents maintained or processed on behalf of Next Door Foundation, for a period of three years. The clause shall state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

Vendor Files and Required Documentation

The Fiscal Department shall create a vendor folder for each new vendor from whom Next Door Foundation purchases goods or services.

The Fiscal Department shall mail a blank Form W-9 to new vendors and request that the vendor complete and sign the W-9 (or provide equivalent, substitute information) and return it in the postage-paid envelope provided. Completed, signed Forms W-9 or substitute documentation shall be filed in each vendor's folder. Vendors who do not comply with this request shall be issued a Form 1099 at the end of each calendar year in accordance with the policies described in the section of this manual on "Government Returns." See the section on "Payroll and Related Policies" for guidance on determining whether a vendor should be treated as an employee.

The following flowchart summarizes the procurement process under Federal regulations:



Receipt and Acceptance of Goods

The purchaser or designated individual shall inspect all goods received. Upon receipt of any item from a vendor, the following actions shall immediately be taken:

1. Review bill of lading for correct delivery point
2. Verify the quantity of boxes/containers with the bill of lading
3. Examine boxes/containers for exterior damage and note on the bill of lading any discrepancies (missing or damaged boxes/containers, etc.)
4. Sign and date the bill of lading
5. Remove the packing slip from each box/container
6. Compare the description and quantity of goods per the purchase order to the packing slip
7. Examine goods for physical damage
8. Count or weigh items, if appropriate, and record the counts on the purchase order
9. Sign and date packing slip and forward to the fiscal department

This inspection must be performed in a timely manner to facilitate prompt return of goods and/or communication with vendors.

POLITICAL INTERVENTION

Prohibited Expenditures

Consistent with its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, Next Door Foundation shall not incur any expenditure for political intervention. For purposes of this policy, political intervention shall be defined as any activity associated with the direct or indirect support or opposition of a candidate for elective public office at the Federal, state or local level. Examples of prohibited political expenditures include, but are not limited to, the following:

1. Contributions to political action committees
2. Contributions to the campaigns of individual candidates for public office
3. Contributions to political parties
4. Expenditures to produce printed materials (including materials in periodicals) that support or oppose candidates for public office
5. Expenditures for the placement of political advertisements in periodicals

Endorsements of Candidates

Next Door Foundation will not endorse any candidates for public office in any manner, either verbally or in writing. This policy extends to the actions of management and other representatives of Next Door Foundation, when these individuals are acting on behalf of, or are otherwise representing, the Organization.

Prohibited Use of Organization Assets and Resources

No assets or human resources of the Organization shall be utilized for political activities, as defined above. This prohibition extends to the use of Organization assets or human resources in support of political activities that are engaged in personally by board members, members of management, employees, or any other representatives of Next Door Foundation. While there is no prohibition against these individuals engaging in political activities personally (on their own time, and without representing the Organization), these individuals must at all times be aware that Organization resources cannot at any time be utilized in support of political activities.

LOBBYING

Introduction

Unlike political intervention, described in the preceding section, expenditures by a section 501(c)(3) public charity for lobbying activities are allowable under the Internal Revenue Code. However, **no** lobbying expenditures may be charged directly or indirectly to any Federal award (i.e., the charity must have a non-Federal source of income to which such lobbying costs can be cited as the source of the activity).

Definition of Lobbying Activities

Lobbying activities conducted by the Organization may be either direct or indirect. Direct lobbying activities consist of attempts to influence legislation through communication with any member or employee of a legislative body (Federal, state, or local levels) or, if the principal purpose of the communication is lobbying, with any government official or employee who may participate in the formulation of the legislation. Direct lobbying occurs when employees of the Organization or paid lobbyists communicate directly in attempts to influence legislation. Lobbying is distinguishable from advocacy activities, which involve efforts to advocate certain positions which may have legislative implications, as long as a nonpartisan analysis of the relevant facts is performed.

Lobbying occurs only when there is a specific piece of legislation or legislative proposal pending that the Organization is attempting to influence. Therefore, lobbying is considered to have taken place only if both of the following elements are present:

1. The communication refers to specific legislation (legislation that has been introduced or a specific legislative proposal that the Organization supports or opposes), and
2. The communication reflects a view on the legislation (supporting or opposing it).

Indirect lobbying involves communications with the general public (rather than directly with legislators, etc.) where the communication includes the same two preceding characteristics, plus it encourages the recipient of the communication to take action with respect to the specific legislation (by contacting legislators, etc.).

Segregation of Lobbying Expenditures

Lobbying expenditures are allowable for charities under the Internal Revenue Code. However, lobbying may not represent a substantial portion of the Organization's overall activities. The Organization's tax exemption would be at risk if lobbying becomes a substantial portion of the Organization's activities.

Accordingly, Next Door Foundation segregates all direct and indirect lobbying expenditures in a separate section of the chart of accounts in the general ledger. Where appropriate, lobbying expenditures shall also be allocated their fair and reasonable share of employee benefits and other joint costs in accordance with cost allocation policies described elsewhere in this manual.

Lobbying Election

As a public charity, the Organization has two options with respect to the Internal Revenue Code's restriction against lobbying being a "substantial" portion of its activities. One option is to make a formal lobbying election, which results in the Organization following a specific mathematical formula to determine its lobbying limitations. Exceeding the limitation would result in an excise tax assessed to the Organization. Exceeding the limitation by 50-percent or more over a four-year period would result in loss of the Organization's overall tax exemption. The other option is to not make the election, resulting in an entirely judgmental assessment of its lobbying activities by the IRS. If it is deemed by the IRS to have engaged in substantial lobbying for any period, the Organization would lose its overall tax exemption under this option.

If Next Door Foundation incurs lobbying expense, it will make the Internal Revenue Code section 501(h) lobbying election by filing Form 5768, and leave that election in place. As a result, the Organization shall report its lobbying expenditures by completing the section for "Electing Charities" on Schedule A that accompanies its annual Form 990 information return filed with IRS.

CHARGING OF COSTS TO FEDERAL AWARDS

Overview

Next Door Foundation charges costs that are reasonable, allowable, and allocable to a Federal award directly or jointly. All unallowable costs shall be appropriately segregated from allowable costs in the general ledger in order to assure that unallowable costs are not charged to Federal awards.

Segregating Unallowable from Allowable Costs

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

1. The budget and grant or contract for each award shall be reviewed for costs specifically allowable or unallowable.
2. Accounting personnel shall be familiar with the allowability of costs provisions of OMB Circular A-122, "Cost Principles for Non-Profit Organizations," particularly:
 - a. The list of specifically unallowable costs found in Attachment B (Selected Items of Cost), such as alcoholic beverages, bad debts, contributions, fines and penalties, lobbying, etc.
 - b. Those costs requiring advance approval from Federal agencies in order to be allowable in accordance with Attachment B, such as foreign travel, equipment purchases, etc.
3. No costs shall be charged directly to any Federal award until the cost has been determined to be allowable under the terms of the award and/or OMB Circular A-122.
4. For each Federal award, an appropriate set of general ledger accounts (or account segments) shall be established in the chart of accounts to reflect the categories of allowable costs identified in the award or the award budget.
5. All items of miscellaneous income or credits, including the subsequent write-offs of uncashed checks, rebates, refunds, and similar items, shall be reflected for grant accounting purposes as reductions in allowable expenditures if the credit relates to charges that were originally charged to a Federal award or to activity associated with a Federal award. The reduction in expenditures shall be reflected in the year in which the credit is received (i.e., if the purchase that results in the credit took place in a prior period, the prior period shall not be amended for the credit).

Criteria for Allowability

All costs must meet the following criteria from A-122, Attachment A, in order to be treated as allowable direct or joint costs under a Federal award:

1. The cost must be "reasonable" for the performance of the award, considering the following factors:
 - a. Whether the cost is of a type that is generally considered as being necessary for the operation of the Organization or the performance of the award;

- b. Restraints imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and state laws and regulations, and the terms and conditions of the award;
 - c. Whether the individuals concerned acted with prudence in the circumstances;
 - d. Consistency with established policies and procedures of the Organization, deviations from which could unjustifiably increase the costs of the award.
2. The cost must be "allocable" to an award by meeting one of the following criteria:
 - a. The cost is incurred specifically for a Federal award;
 - b. The cost benefits both the Federal award and other work, and can be distributed in reasonable proportion to the benefits received; or
 - c. The cost is necessary to the overall operation of the Organization, except where a direct relationship to any particular program or group of programs cannot be demonstrated.
3. The cost must conform to any limitations or exclusions of OMB Circular A-122 or the Federal award itself.
4. Treatment of costs must be consistent with policies and procedures that apply to both Federally financed activities and other activities of the Organization.
5. Costs must be consistently treated over time.
6. The cost must be determined in accordance with generally accepted accounting principles.
7. Costs may not be included as a cost of any other Federally financed program in the current or prior periods.
8. The cost must be adequately documented.

Direct Costs

Direct costs include those costs that are incurred specifically for one award or non-Federal function. Next Door Foundation identifies and charges these costs exclusively to each award or program.

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

Time sheets or personnel activity reports are also submitted on a regular basis, reflecting employees' work and which programs directly benefited from their effort. Time sheets or personnel activity reports shall serve as the basis for charging salaries directly to Federal awards and non-Federal functions. See the Payroll section of this manual for detailed procedures.

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

Cost Pools

Direct and joint costs are allocated to the benefiting programs using cost pools under the following methodology:

1. Costs will be allocated to all programs on an equitable basis regardless of any limits imposed by funding sources.
2. As much as possible, costs will be charged directly to benefiting programs.
3. All remaining shared costs will be allocated on the most meaningful measures. The following basis will be used (see chart on page 74):
 - a. Facilities and related costs will be allocated based on square footage occupied
 - b. Costs of the Human Resources Department will be allocated based on number of employees
 - c. Fiscal and accounting-related costs will be allocated based on number of transactions.
4. Program-related costs will be allocated based on relevant activity measures, such as number of meals served, number of children or clients.

Accounting for Specific Elements of Cost

Next Door Foundation shall utilize the following methods of charging specific elements of cost to Federal awards as direct or joint costs:

Salaries and Wages – Salaries and wages shall be charged directly and jointly based on the functions performed by each employee, as documented on each employee’s timesheet (or personnel activity sheet), as follows:

Direct costs – The majority of the employees of Next Door Foundation charge their time directly since their work is specifically identifiable to specific grants or other (non-Federal) programs or functions of the Organization.

Joint costs – The following staff charge 100 percent of their salary costs jointly:

Human Resource staff
Fiscal Department

Mixed charges – The following employees may charge their salary costs to both direct and joint activities:

Executive Director
Executive Assistant
Development Staff

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

Employee Benefits – Next Door Foundation incurs costs for the following statutory and non-statutory employee benefits:

- FICA
- Unemployment insurance
- Worker's compensation
- Health insurance
- Dental insurance
- Life/STD/LTD insurance

The total cost of all of the preceding employee benefits shall be determined by adding the costs associated with each benefit. This total employee benefit costs shall then be allocated directly and jointly in the same proportions as salaries and wages.

Occupancy Expenses – Monthly mortgage expense and related pass-through expenses shall be allocated directly and jointly, based on approximate square footage of space utilized, as follows:

Direct costs – The cost of space occupied by staff whose salaries are directly charged to Federal awards is charged directly to those same awards.

Joint costs – The costs of space occupied by staff whose salaries are jointly charged is also charged jointly. The cost of space for staff whose salaries are charged on a mixed basis (directly and jointly) shall be allocated on a mixed basis in the same ratio as their salaries are allocated.

The cost of space associated with common areas, such as hallways, restrooms, and conference rooms, shall be accounted for as a joint cost.

Utilities – Utilities costs include electricity and water. Such utilities costs shall be charged directly and jointly in the same proportion as occupancy costs.

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

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

Photocopying and Printing – Photocopying costs include all paper and copy supplies, copier maintenance charges and the actual lease cost or depreciation expense of the copier. Photocopying costs shall be charged directly and jointly based on the user codes input into the copier prior to making photocopies.

All printing costs are charged directly to the benefiting grant or program/function.

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

Local telephone service costs are charged directly and jointly based upon the number of telephone units assigned to Next Door Foundation. Each telephone unit is identified to either a direct or a joint activity, as determined annually based on an approximation of time charges of employees associated with each telephone unit. No telephone units shall be charged as mixed-use units due to the immateriality of the costs involved. For example, if Next Door Foundation has 100 telephone units and 15 of those units are assigned to employees who work directly on a particular grant, 15 percent of each month's local telephone service costs shall be allocated to that grant.

Long-distance telephone calls are charged either directly or jointly based upon whether a direct or joint activity benefits from the transmission.

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

Audit fees – Cost of the financial statement audit and preparation of Form 990 shall be charged as an joint cost. Additional audit costs related to that portion of the audit associated with OMB Circular A-133 shall be charged directly to the audited programs, based on estimates received from the independent CPA firm.

Legal fees – Legal fees shall be charged directly to the program/function that benefits from the services. Legal fees that are not identifiable with specific direct grants or programs shall be charged jointly.

Staff Development Specialists – Costs associated with staff development specialists shall be charged directly to the program/function that benefits from the services. Fees that are not identifiable with specific direct grants or programs shall be charged jointly.

Insurance – To the extent that insurance premiums are associated with insurance coverage for specific grants or programs, those premium costs shall be charged directly. All insurance costs that are not identifiable with specific direct grants or programs (such as the Organization's general liability coverage) shall be charged jointly.

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

Cost Pool

Allocation Basis

Audit Services	Number of Transactions Processed
Data Analysis Services	Funded Enrollment
Fiscal Services	Number of Transactions Processed
Governance Services	Number of Employees
Health Services	Funded Enrollment
Human Resources Services	Number of Employees
Information Technology Services	Number of PC's Deployed
Insurance	Square Footage Occupied
Internet Services	Number of PC's Deployed
Janitorial Services	Square Footage Occupied
Library Services (Books for Kids)	Funded Enrollment
Nutrition Services	Funded Enrollment
Occupancy (Rent)	Square Footage Occupied
Reception Services	Square Footage Occupied
Recruitment Services	Funded Enrollment
Special Education Services	Funded Enrollment
Special Needs Services (Mental Health)	Funded Enrollment
Telephone (Desk top)	Number of Phones Deployed
Transportation Services	Funded Enrollment
Utilities	Square Footage Occupied

ACCOUNTS PAYABLE MANAGEMENT

Overview

Next Door Foundation strives to maintain efficient business practices and good cost control. A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and check reconciliation. The following are general policies for accounts payable:

- Assets or expenses and the related liability are recorded by an individual who is not responsible for ordering and receiving.
- The amounts recorded are based on the vendor invoice for the related goods or services.
- The vendor invoice should be supported by an approved purchase order where necessary, and should be reviewed and approved by a Department Director prior to being processed for payment.
- Invoices and related general ledger account distribution codes are reviewed prior to posting to the subsidiary system.

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

1. Disbursements are properly authorized
2. Invoices are processed in a timely manner
3. Vendor credit terms and operating cash are managed for maximum benefits

Recording of Accounts Payable

All valid accounts payable transactions, properly supported with the required documentation, shall be recorded as accounts payable in a timely manner.

Accounts payable are processed on a weekly basis. Information is entered into the system from approved invoices or disbursement vouchers with appropriate documentation attached.

Only original invoices will be processed for payment unless duplicated copies have been verified as unpaid by researching the vendor records. No vendor statements shall be processed for payment.

Accounts Payable Cut-Off

For purposes of the preparation of the Organization's monthly financial statements, all vendor invoices that are received, approved and supported with proper documentation by the second Friday of the following month shall be recorded as accounts payable as of the end of the immediately preceding month if the invoice pertains to goods or services delivered by month-end.

Establishment of Control Devices

The Payroll/Accounts Payable Clerk establishes control of invoices as soon as they are received. Vendors will be instructed to mail all invoices directly to the Accounts Payable Department.

Upon receipt, each invoice shall be recorded on a log of invoices received, "date received" stamped, and distributed to the appropriate personnel for approval. The log is to be reviewed daily to determine which, if any, invoices have not been returned to the Fiscal Department.

Preparation of a Voucher Package

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

1. Vendor invoice (or employee expense report)
2. Packing slip (where appropriate)
3. Receiving report (or other indication of receipt of merchandise and authorization of acceptance)
4. Purchase order as required by procurement policies
5. Any other supporting documentation deemed appropriate

Processing of Voucher Packages

The following procedures shall be applied to each voucher package by the Payroll/Accounts Payable Specialist:

1. Check the mathematical accuracy of the vendor invoice.
2. Compare the nature, quantity and prices of all items ordered per the vendor invoice to the purchase order, packing slip and receiving report.
3. Document the general ledger distribution, using the Organization's current chart of accounts.
4. Obtain the review and approval of the Department Director (or their designee) associated with the goods or services purchased.

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

Payment Discounts

To the extent practical, Next Door Foundation takes advantage of all prompt payment discounts offered by vendors. When such discounts are available, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

Employee Expense Reports

Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed expense reimbursement form (see further policies under "Travel and Business Entertainment"). All required receipts must be attached, and a brief

description of the business purpose of trip or meeting must be noted on the form. Expense reports will be processed for payment in the next payroll cycle if received by 10:00am on the Monday of the payroll week deadline. Expenses older than two months will not be reimbursed.

Reconciliation of A/P Subsidiary Ledger to General Ledger

At the end of each monthly accounting period, the total amount due to vendors per the accounts payable subsidiary ledger shall be reconciled to the total per the accounts payable general ledger account (control account). All differences are investigated and adjustments are made as necessary. The reconciliation and the results of the investigation of differences are reviewed and approved by the Controller.

Also on a monthly basis, the Payroll/Accounts Payable Specialist shall perform the following procedures:

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

Management of Accounts Payable Vendor Master File

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

For vendors that will be paid a total of \$10,000 or less during the Organization's fiscal year, the vendor file data may be limited to the vendor name and address. However, for all vendors to be paid more than \$10,000 during a fiscal year, the file shall include all of the following data:

1. Vendor's legal name and any DBA name(s)
2. Street address (payments may be mailed to a P.O. Box, but a street address must be in the file)
3. Federal employer identification number
4. Telephone number
5. Fax number
6. Contact name

Payments shall not be made to any vendor whose file does not comply with the preceding requirements.

On an annual basis, vendors that have not been utilized over the preceding 24-month period shall be purged (or made inactive) from the master vendor file. In addition, on an annual basis an internal audit shall be performed of the master vendor file and of payment histories made to each vendor. This analysis, to be performed by the Controller shall consist of the following procedures, at a minimum:

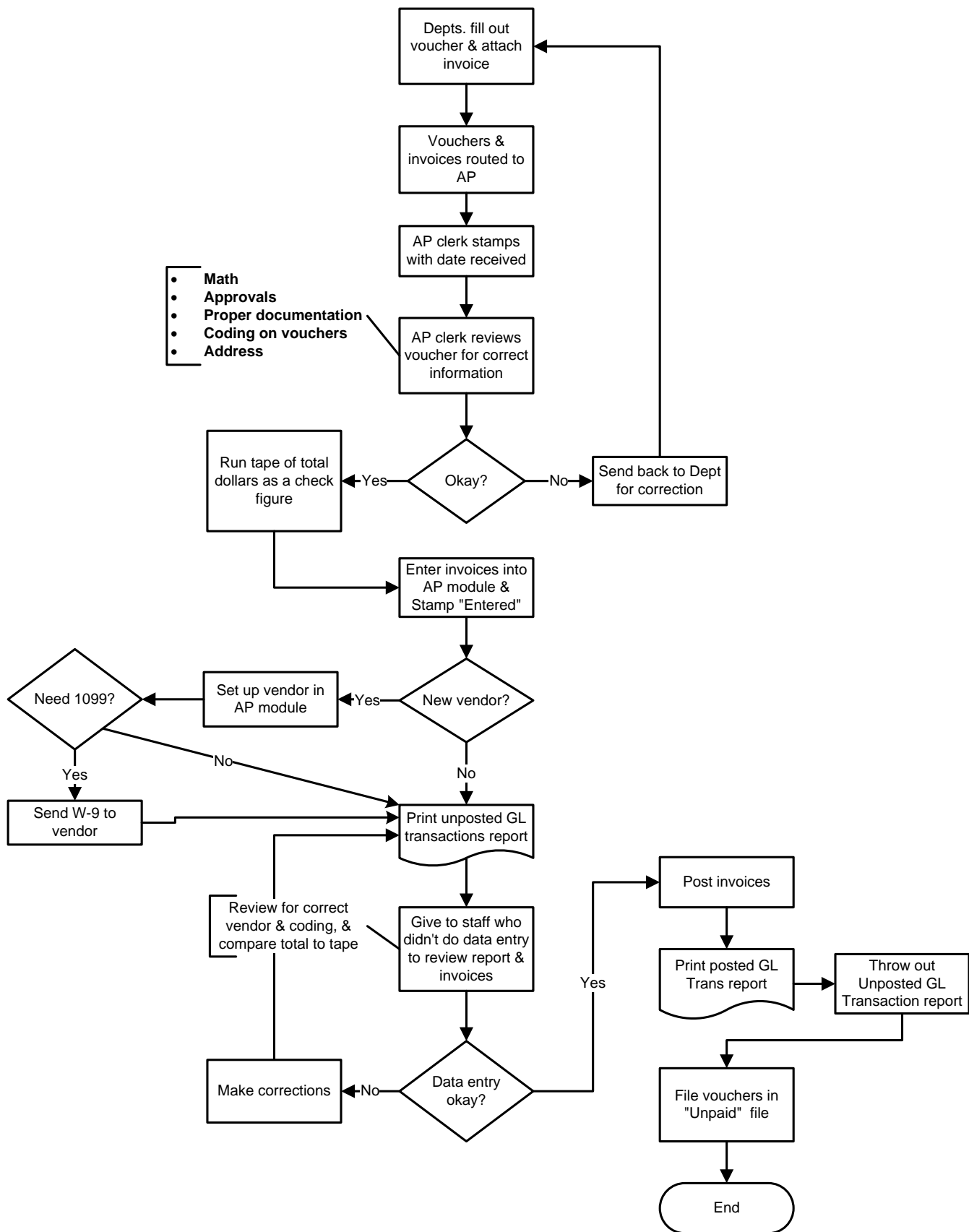
1. Cross-checking of vendors with matching street or P.O. Box addresses
2. Review of payment histories for signs of repeat invoice numbers or other indications of duplicate payments

Any unexplained deviations or irregularities noted in connection with the preceding internal audit procedures shall be reported to the chair of the Organization's Finance and Administrative Committee.

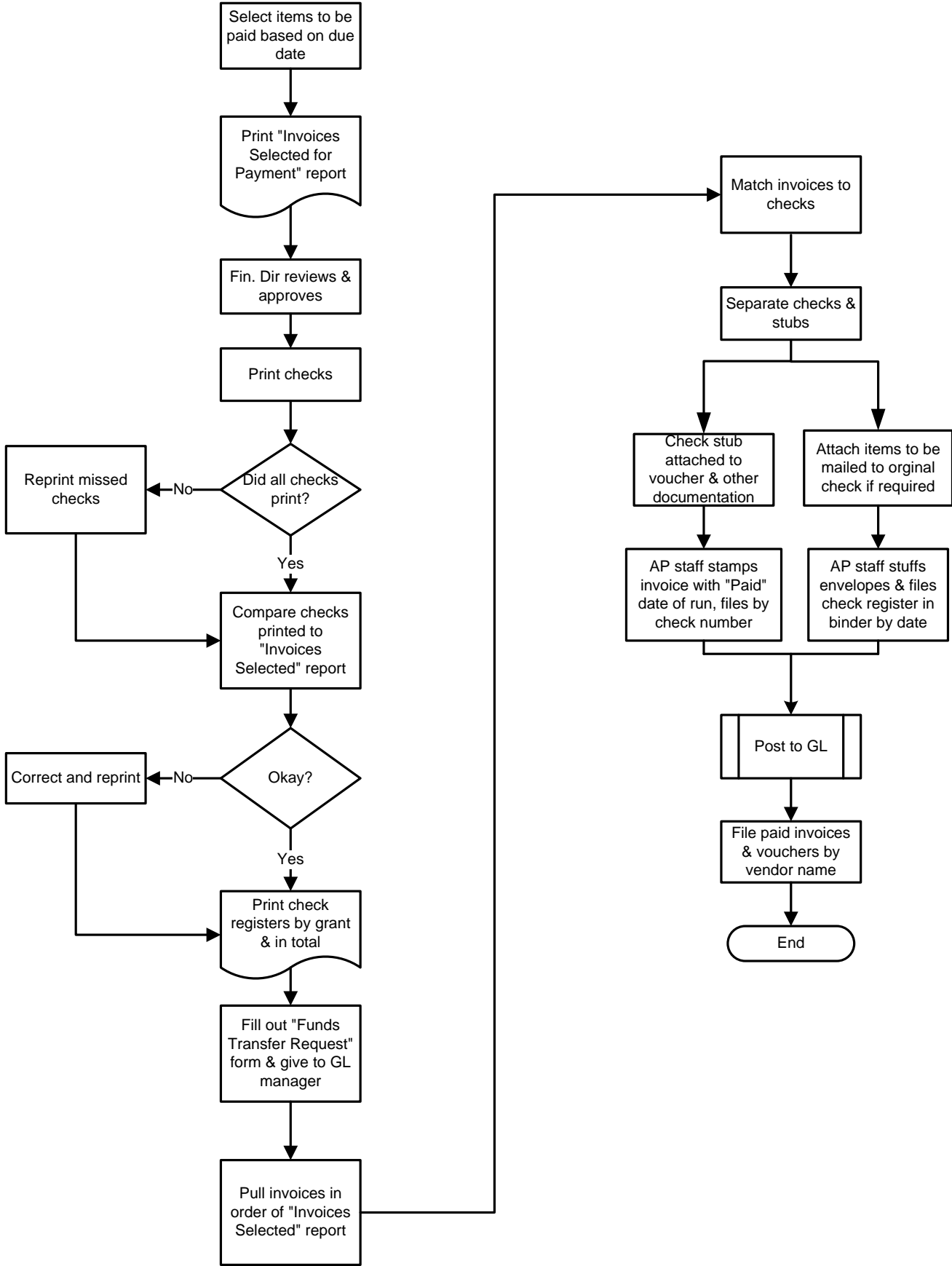
Verification of New Vendors

The Payroll/Accounts Payable Specialist will perform additional procedures to validate the legitimacy of new vendors that shall be paid one-time or cumulative payments in excess of \$100,000. For such vendors, the Payroll/Accounts Payable Specialist shall perform a limited public records search and shall contact the vendor to validate the vendor's existence.

Accounts Payable Process



Accounts Payable Payment Process



TRAVEL AND BUSINESS ENTERTAINMENT

Travel Advances

Funds will be advanced for upcoming travel only upon receipt of a completed and properly approved request for travel advance. Travel advances are generally not done unless there is an extraordinary need for additional funds. Travel advances are to be used only for the purpose intended. Travel expenses are to be made in accordance with the Organization's travel policies as explained later in this section.

Employees receiving travel advances are required to sign for the advance signifying their acknowledgement of, and agreement to, these policies. Employees receiving travel advances must submit an expense report within 30 days of returning from travel. Any outstanding advances more than 30 days old will be deducted from an employee's next paycheck.

Employee and Director Business Travel

At the conclusion of an Next Door Foundation business trip, an employee or member of the Board of Directors that has incurred business-related expenses should complete an expense report in accordance with the following policies:

1. Identify each separately incurred business expense (i.e., do not group all expenses associated with one trip together).
2. NDF utilizes standard IRS/GSA per diem rates to reimburse travelers exclusively for meals and incidentals. Meal receipts from travelers are not needed. NDF pays 75% of the per diem on the day leaving and the day returning
3. Vendor receipts/invoices must be submitted for all lodging and any expenditure other than meals. Credit card charge slips do not represent adequate supporting documentation – a hotel receipt must be obtained to substantiate all lodging expenditures.
4. For airfare, airline-issued receipts should be obtained. If a traveler fails to obtain a receipt, other evidence must be submitted indicating that a trip was taken and the amount paid (for example, a combination of an itinerary, a credit card receipt, and boarding passes).
5. Mileage may be reimbursed at the standard Federal rates currently in effect, as published each year by the IRS.
6. The business purpose of each trip must be adequately explained on each report.
7. General ledger account coding must be identified for all expenditures.
8. For all other business expenditures, the following must be clearly identified:
 - a. Names, titles, organizations, and business relationships of all persons entertained
 - b. The business purpose of the other business event (topics discussed, etc.)
9. All expense reports must be signed and dated by the employee.
10. All expense reports must be approved by the employee's Department Director.
11. Only one expense report form should be prepared for each trip.

An employee will not be reimbursed for expense reports not meeting the preceding criteria. If the expense report results in a balance due to Next Door Foundation (as a result of receiving a travel advance greater than actual business expenditures), the employee must attach a check or sign a statement indicating authorization to settle the balance due through a payroll deduction.

No further travel advances will be issued to any employee who has an outstanding balance due to Next Door Foundation from previous business trips.

Reasonableness of Travel Costs

Next Door Foundation shall reimburse travelers only for those business-related costs that are reasonably incurred. Accordingly, the following guidelines shall apply:

1. Suites and other upgraded rooms at hotels shall not be allowed. Travelers should stay in standard rooms.
2. Ask hotels for any available discounts – nonprofit, government or corporate rates.
2. When utilizing rental cars, travelers should rent midsize or smaller vehicles. Share rental cars whenever possible.
3. Business-related long-distance telephone calls while away on business travel are permitted, but should be kept to a minimum. Expense reports should explain long-distance charges.
4. Personal long-distance calls while away on business are reimbursable if kept to a minimum, such as one nightly call home to family. Personal calls in excess of this shall not be reimbursed.
5. Whenever possible, travelers should utilize long-distance calling cards when placing calls while away on travel. Avoid using the hotel's long-distance service if possible.
6. Reasonable tips for baggage handling shall be reimbursed. No receipts are required.
7. Foreign travel charged to Federal grants must be approved in writing by the funding source prior to travel.

Special Rules Pertaining to Air Travel

The following additional rules apply to air travel:

1. Air travel should be at coach class or the lowest commercial discount fare at the time the ticket is purchased except when this fare would:
 - a. Require circuitous routing
 - b. Require travel during unreasonable hours
 - c. Excessively prolong travel
 - d. Result in additional costs that would offset the transportation savings, or
 - e. Offer accommodations not reasonably adequate for the traveler's medical needs.
2. First class air travel shall not be reimbursed unless there is a documented medical reason, and such use must be documented.
3. Memberships in airline flight clubs is not reimbursable.
4. Cost of flight insurance is not reimbursable.
5. When airfare is \$500 or more, two quotes from a travel agency and/or an airline should be obtained and attached to the expense report.

6. When returning on a Sunday or departing on a Saturday in order to obtain a cost savings in airfare due to the Saturday-night stay-over, travelers should provide a total cost comparison (showing that the lower airfare plus an extra night lodging, meals & incidentals is less costly than airfare without the Saturday night stay-over).
7. Cost of upgrade certificates is not reimbursable.
8. Cost of canceling and rebooking flights is not reimbursable, unless it can be shown that it was necessary or required for legitimate business reasons (such as changed meeting dates, etc.).
9. Travelers must identify and pay for all personal flights, even if such flights are incorporated into a flight schedule that serves business purposes (i.e., Next Door Foundation will not reimburse for the personal legs of a trip).

Spouse/Partner Travel

Next Door Foundation does not reimburse any employee or board member for separate travel costs (air fare, etc.) associated with his/her spouse or partner. The cost of a shared hotel room need not be allocated between employee/director and spouse/partner for purposes of this policy.

CASH DISBURSEMENTS (CHECK-WRITING) POLICIES

Check Preparation

Next Door Foundation prints vendor checks and expense reimbursement checks on a weekly basis. Checks shall be prepared by persons independent of those who initiate or approve expenditures, as well as those who are authorized check signers.

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

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

Check Signing

Checks of less than \$3,000 require a single signature. Checks of \$3,000 or more require two signatures. No check shall be signed prior to the check being completed in its entirety (no signing of blank checks). See Signature Authority form for approved signers.

Checks shall be signed by an individual other than the one who approved the transaction for payment.

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

Use of Positive Pay System

Next Door Foundation utilizes a “Positive Pay” system with its financial institution for some checks drawn on the operating account. With this system, the Senior Accountant electronically communicates to the financial institution a list of check numbers, amounts, and vendors in connection with each check

run. The financial institution shall then notify the Controller if any check is presented for payment that does not match the three characteristics for valid checks provided by the Senior Accountant.

Mailing of Checks

After signature, checks are returned to the individual who prepared them, who then mails checks immediately. Checks shall not be mailed by or returned to individuals who authorize expenditures.

Voided Checks and Stop Payments

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

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

Recordkeeping Associated with Independent Contractors

Next Door Foundation shall obtain a completed Form W-9 or equivalent substitute documentation from all vendors to whom payments are made (see "Accounts Payable Management" policies). A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year end. Payments to such vendors shall be accumulated over the course of a calendar year.

CREDIT CARDS

Issuance of Corporate Credit Cards

Next Door Foundation employees who drive vans/buses on Organization business may request a corporate fuel credit card by contacting the Fiscal Department. Cardholders will be required to sign a statement acknowledging that the card shall be used exclusively for legitimate Organization-related business purposes and that the cardholder agrees to take reasonable precautions to protect the card from loss or theft by storing it in a secure location.

Cardholder Responsibilities

Each time the credit card is used, the cardholder must submit a receipt signed by him/herself and his/her immediate supervisor to the Fiscal Department within three days. Repeated failure to do so will result in suspension of credit card privileges.

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

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

The Controller will review and approve all credit card statements monthly. The credit card is then reviewed and approved by the Finance and Administrative Committee at the next occurring meeting after the statement was received.

Cardholders shall report the loss or theft of a corporate credit card immediately by notifying the credit card company as well as the Controller.

Revocation of Corporate Credit Cards

Failure to comply with any of these policies associated with the use of Next Door Foundation's corporate credit cards shall be subject to possible revocation of credit card privileges. The Controller, with the approval of the Executive Director or VP of Administration, shall determine whether credit cards are to be revoked.

Employee Credit Cards

Employees and officers incurring legitimate Organization business expenses are expected to utilize their personal credit cards for such expenditures. The Organization shall reimburse employees and officers for properly supported and documented business expenditures charged to personal credit cards within ten business days of the proper completion of an expense report. Travel advances may be requested in special circumstances (e.g. situations in which legitimate business expenses are expected to exceed an employee's credit card limit or other special cases).

PAYROLL AND RELATED POLICIES

Classification of Workers as Independent Contractors or Employees

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

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

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

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

- d. The extent to which services performed by the worker are a key aspect of the regular business of Next Door Foundation.

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

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

Wage Comparability Study

Next Door Foundation will perform wage comparability studies every three years to ensure the salary and wage structure is similar to other organizations of like size and employee base in our area. Please see the Organization’s Human Resources policy manual for details.

Payroll Administration

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

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

1. Next Door Foundation Employment Application (and resume, if applicable)
2. Applicant references (work & personal)
3. Interview questions and notes
4. Form W-4 Employee Federal Withholding Certificate
5. Form WT-4 State Withholding Certificate
6. Form I-9 Employment Eligibility Verification
7. Starting date and scheduled hours
8. Job title and starting salary
9. Authorization for direct deposit of paycheck, along with a voided check or deposit slip

The following documents shall be viewed at the time of hire for all new employees:

1. A valid driver’s license
2. Social Security card issued by the Social Security Administration

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

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

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

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

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

If required by specific grants such as Head Start, the employee payroll file must also include a pre-employment background check.

Changes in Payroll Data

All of the following changes in payroll data are to be authorized in writing:

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

New hires, terminations, and changes in salaries or pay rates shall be authorized in writing by the appropriate Department Director.

Voluntary payroll deductions and changes in income tax withholding status shall be authorized in writing by the individual employee.

Documentation of all changes in payroll data shall be maintained in each employee's personnel file.

Payroll Taxes

The Fiscal Department is responsible for ensuring all required tax forms are properly completed and submitted, and that all required taxes are withheld and paid. The Fiscal Department may utilize the services of an outside payroll service center for the processing of payroll, as determined by the Controller.

Next Door Foundation will obtain an updated Form W-4 from each employee in January of each year. Withholding of Federal income taxes shall be based on the most current Form W-4 prepared by each employee.

Personnel Activity Reports

Next Door Foundation follows the guidelines in OMB Circular A-122, Attachment B.8, *Compensation for Personal Services*, as well as requirements in specific grants. Therefore, salaries and wages charged to Federal grants will be supported as follows:

1. Charges will be based on documented payrolls approved by responsible officials of the Organization.
2. Every staff member whose compensation is charged, in whole or in part, directly or jointly to Federal awards, will complete activity reports that account for the total activity for which the employee is compensated.
3. The reports will reflect an after-the-fact determination of the actual activity of each employee. Budget estimates will not be used as support for charges to awards.
4. The reports must be signed by the individual employee or by a responsible supervisor who has first-hand knowledge of the activities performed by the employee.
5. The reports will be prepared on the same basis as the pay periods [semi-monthly].
6. Charges for non-exempt employees will also be supported by records required by the Fair Labor Standards Act.
7. Salaries and wages of employees used in meeting cost sharing or matching (in-kind) are supported in the same manner as salaries and wages charged to Federal awards.

Preparation of Timesheets

Each Next Door Foundation employee must submit to the Fiscal Department a signed and approved timesheet no later than 10:00am on the Monday following the close of each pay period. Timesheets shall be prepared in accordance with the following guidelines:

1. Each timesheet shall reflect all hours worked during the pay period (time actually spent on the job performing assigned duties), whether compensated or not.

2. Timesheets shall be prepared in ink (or electronically).
3. Errors shall be corrected by crossing through the incorrect entry, filling in the correct entry, and placing the employee's initials next to the change (i.e., employees shall not use "white out" or correction tape)
4. Employees shall identify and record hours worked based on the nature of the work performed;
5. Compensated absences (vacation, holiday, sick leave, etc.) should be clearly identified as such;
6. Timesheets shall be signed by the employee prior to submission.

After preparation, Department Directors/Supervisors or their designees shall approve timesheets prior to submission to the Fiscal Department. Corrections identified by an employee's supervisor shall be authorized by the employee by initialing next to the change.

An Organization employee who is on leave, traveling, or is ill on the day that timesheets are due may telephone or email timesheet information (actual time worked and the appropriate classifications) to his or her supervisor (or designated alternate). The employee must initial a timesheet submitted in this manner immediately upon his/her return to the office. Timesheets submitted in this manner shall bear the notation, "Time reported by telephone or e-mail by (employee) to (supervisor or designated alternate)." The timesheet shall be signed by the supervisor or the designated alternate.

Processing of Timesheets

The Accountant will process the timesheets by checking them for mathematical accuracy, then entering all timesheets into the Paychex payroll service center system.

The Accountant may not change or correct timesheets. When errors are noted, if a corrected and approved timesheet is not resubmitted in time to the Accountant, the employee may not receive a pay check until the next pay period.

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

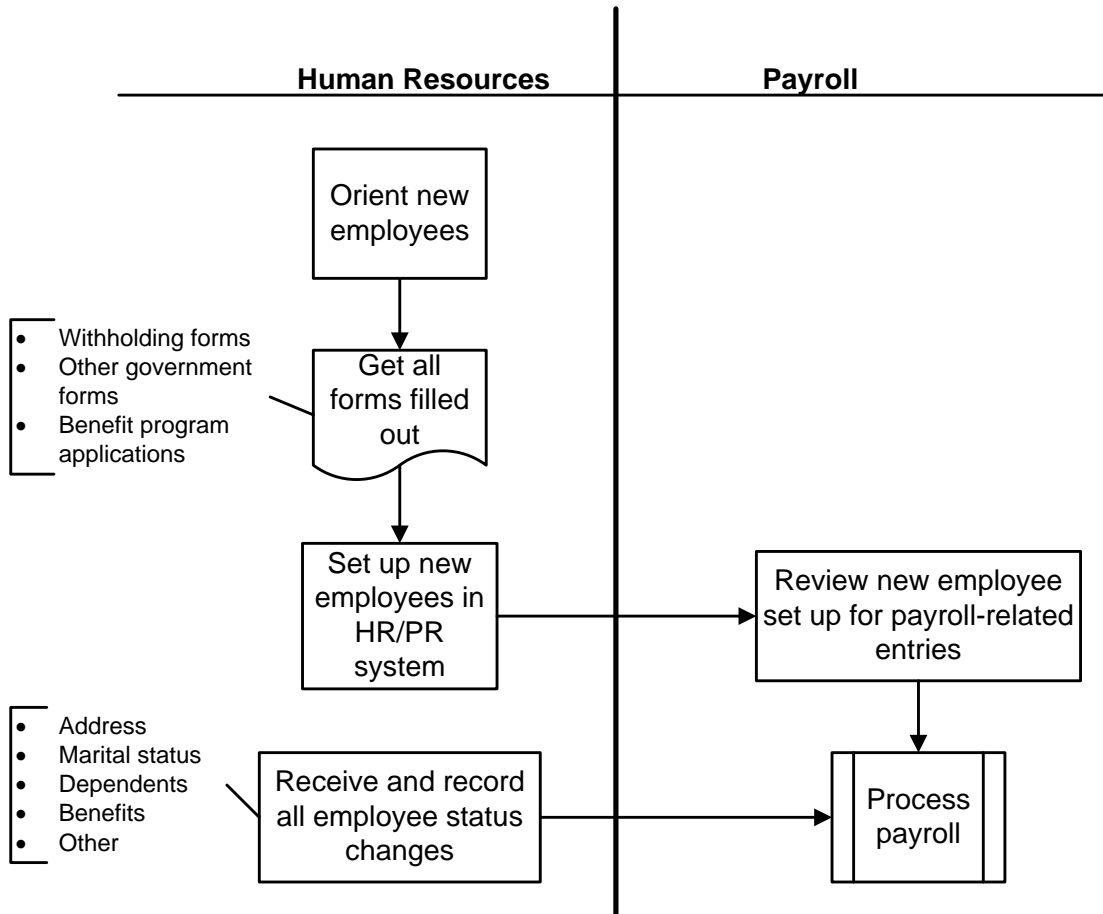
Review of Payroll

Upon return of payroll reports and checks from the Paychex payroll service center, the Senior Accountant reviews payroll prior to its distribution to employees. The Senior Accountant shall sign the payroll register, indicating approval of the payroll.

Distribution of Payroll

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

Human Resources and Payroll Processes



POLICIES PERTAINING TO SPECIFIC ASSET ACCOUNTS

CASH AND CASH MANAGEMENT

Cash Accounts

General Checking Account (operating account):

The primary operating account provides for payroll and routine business check disbursements. All cash and check deposits are made to this account.

Cash transfers are done on an as needed basis to cover disbursements. Excess funds in this account are transferred into short-term investments or higher interest-bearing cash equivalents.

In addition, all advances of Federal funds shall be deposited in an interest-bearing account and interest earned in excess of \$100 shall be returned to the awarding agency. Interest earned on such funds will be allocated to Federal awards based on the percentage of funds received during the month for each award.

Authorized Signers

The following Next Door Foundation personnel are authorized to sign checks drawn on the general operating are:

- Executive Director
- President, Board of Directors
- Chairperson, Finance and Administrative Committee

Controller will promptly notify the Organization's financial institutions of changes in authorized signatures upon the departure of any authorized signer. Refer to the section titled "Check Signing" for procedures.

Bank Reconciliations

Bank account statements are received each month and forwarded unopened to the Controller. The Controller shall open the statement and review its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of alterations to checks, etc. (This review must be performed in a timely manner so that reconciliation of the bank account is not delayed.) Unusual or unexplained items shall be reported immediately to the Finance and Administrative Committee.

After this review is complete, the entire bank statement is forwarded to the Fiscal Department, where a reconciliation between the bank balance and general ledger balance is prepared by the Senior Accountant, who is not an authorized check signer. The bank reconciliation process will be completed within 7 business days of receipt of each bank statement.

The reconciliation process shall involve an inspection of the fronts and backs of cancelled checks returned with the bank statement. The purpose of this inspection is to identify signs of forgery, altered or substitute checks, unusual endorsements, or other signs of fraudulent activity. If the Organization's financial institution does not return original cancelled checks or paper copies thereof, the person preparing the monthly bank reconciliation shall view electronic copies of cancelled checks provided by the financial institution Internet access to the Institution's web site.

All bank reconciliations, including any adjusting journal entries resulting from preparing bank reconciliations, are reviewed by the Controller on a monthly basis.

Bank reconciliations, cancelled checks, and copies of resulting journal entries are filed in the current year's accounting files.

Cash Flow Management

The Controller monitors cash flow needs on a weekly basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis.

Next Door Foundation adheres to the requirements of its grants which may prohibit loaning funds between programs (for example, Head Start), therefore, cash management and reporting is performed at the program level as well as for the Organization as a whole.

Stale Checks

Next Door Foundation will write off checks of \$1,000 or less that are more than 6 months old that have not cleared the Organization's bank. For uncashed checks that are more than 6 months old and that exceed \$1,000, contact will be made with the payee to resolve the issue.

All stale checks that are written off within the same fiscal year as they were written shall be credited to the same expense or asset account that was debited when the check was written, or the expenditure incurred. For stale checks written off in fiscal years subsequent to the year in which the check was written, the credit shall be to miscellaneous income.

Petty Cash

Next Door Foundation will provide imprest funds for valid, minor office expenditures (not for travel for employee advances), and to periodically replenish these funds up to its authorized balance of \$200. The [Petty Cash Custodian] is responsible for ensuring that the petty cash fund is locked at all times.

All disbursements from the petty cash fund must be accompanied by a completed and approved petty cash voucher. Receipts are required for all disbursements from petty cash.

The [Petty Cash Custodian] shall prepare a reconciliation of the petty cash account on a periodic basis.

Petty cash reconciliations are subject to review by the Senior Accountant, who may also perform periodic surprise cash counts and reconciliations.

Line of Credit Transfers

The Controller and the Executive Director shall be the only DCPC employees authorized to transact line of credit transfers from Next Door Foundation's bank account. To prevent anyone other than the Controller and the Executive Director from transacting line of credit transfers, a system shall be employed that requires written confirmation from the Controller or the Executive Director for each line of credit transfer.

Confirmations of all line of credit transfers are delivered to the Controller.

PREPAID EXPENSES

Accounting Treatment

Next Door Foundation treats payments of expenses that have a time-sensitive future benefit as prepaid expenses and will amortize these items over the corresponding time period. For purposes of this policy, payments of less than \$500 shall be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statement date shall be classified as non-current assets.

Procedures

As part of the account coding process performed during the processing of accounts payable, all incoming vendor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

The Fiscal Department shall maintain a schedule of all prepaid expenses. The schedule shall indicate the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.

INVESTMENT POLICIES

Introduction

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

Funds to be invested do not include those from Federal awards. Such funds will be spent on program requirements as budgeted, or returned to the awarding agency. Any advances of Federal funds will be maintained in an interest-bearing account. Interest earned on such funds will be allocated to federal grants based on a percentage of funds received during the month.

Delegation of Authority

The Board of Directors of Next Door Foundation has delegated supervisory authority over its investing activities to the Advancement Committee. The Advancement Committee is responsible for regularly reporting on the Organization's investments to the full Board of Directors.

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

Investment Objectives

Next Door Foundation's investment objectives are the preservation and protection of the Organization's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities, by earning an appropriate return on investments.

Allowable Investments

Investments of Next Door Foundation shall be made exclusively with the following securities:

1. Federally-insured Certificates of Deposit, not to exceed \$100,000, including interest, at commercial banks or savings and loan institutions;
2. U.S. Treasury securities and securities of Federal agencies and instrumentalities;
3. Repurchase agreements with financial institutions, collateralized by U.S. Treasury or Federal agency securities;
4. Corporate bonds and notes rated A or better by Moody's and Standard & Poors;

5. Commercial paper rated P-1/A-1 by Moody's and Standard & Poors;
6. Money market funds that invest in securities approved under these guidelines.

Next Door Foundation shall not engage in margin transactions, short selling, commodity transactions or use of derivatives.

Diversification

No more than [ten percent] of the investments of Next Door Foundation shall be in the securities of any one issuer, with the exception of obligations of the U.S. government, its agencies and instrumentalities, and Federally-insured certificates of deposit.

Accounting Treatment

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

Subsequent to acquisition, Next Door Foundation carries all equity securities with readily determinable fair market values and all debt securities at their market values. Adjustments to market value shall be made in the accounting records and financial statements of Next Door Foundation on a [quarterly] basis.

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

Procedures and Reporting

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

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

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

PROPERTY AND EQUIPMENT

Capitalization Policy

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

If an awarding agency requires a lower amount for equipment, Next Door Foundation will adhere to that dollar amount only for that program or contract.

Capitalized property and equipment additions are accounted for at their historical cost and all such assets, except land, are subject to depreciation over their estimated useful lives, as described later.

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

Contributed Assets

Assets with fair market values in excess of \$5,000 (per unit) that are contributed to Next Door Foundation shall be capitalized as fixed assets on the financial statements. Contributed items with market values below this threshold shall be expensed in the year contributed.

Capitalized contributed assets are accounted for at their market value at the time of donation and all such assets, except land and certain works of art and historical treasures, are subject to depreciation over their estimated useful lives, as described later.

Equipment and Furniture Purchased With Federal Funds (A-110_34)

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

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

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

1. Adequate insurance coverage will be maintained with respect to equipment and furniture charged to Federal awards.
2. For equipment (or residual inventories of supplies) with a remaining per unit fair market value of \$5,000 or less at the conclusion of the award, Next Door Foundation shall retain the equipment without any requirement for notifying the Federal agency.
3. If the remaining per unit fair market value is \$5,000 or more, Next Door Foundation shall gain a written understanding with the Federal agency regarding disposition of the equipment. This understanding may involve returning the equipment to the Federal agency, keeping the equipment and compensating the Federal agency, or selling the equipment and remitting the proceeds, less allowable selling costs, to the Federal agency.
4. The Grant Manager shall determine whether a specific award with a Federal agency includes additional equipment requirements or thresholds and requirements that differ from those described above.
5. A physical inventory of all equipment purchased with Federal funds shall be performed at least once every two years. The results of the physical inventory shall be reconciled to the accounting records of and Federal reports filed by Next Door Foundation.

Establishment and Maintenance of a Fixed Asset Listing

All capitalized property and equipment shall be recorded in a property log. This log shall include the following information with respect to each asset: (A-110_34 (f)(1))

1. Date of acquisition
2. Cost
3. Description (including color, model, and serial number or other identification number)
4. Source of the equipment, including the Federal award number, if applicable
5. Whether the title vests in the Organization or the Federal Government
6. Information to calculate the Federal share of the cost of the equipment, if applicable
4. Location of asset
5. Depreciation method
6. Estimated useful life

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

Receipt of Newly-Purchased Equipment and Furniture

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

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

Depreciation and Useful Lives

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

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month (Example: an asset purchased on the 15th day of the fifth month shall have eight full months of depreciation (eight-twelfths of one year) recorded for that year.)

Estimated useful lives of capitalized assets shall be determined by the Fiscal Department in conjunction with the department or employee that shall utilize the asset. The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

Furniture and fixtures	Up to 10 yrs
General office equipment	5 yrs
Computer hardware and peripherals	3-5 yrs
Computer software	2-3 yrs
Leased assets	life of lease
Leasehold Improvements	remaining lease term

Alternatively, at the direction of the Controller, capitalized assets may be depreciated over useful lives expressed in terms of units of production or hours of service in place of the preceding useful lives expressed in terms of time.

For accounting and interim financial reporting purposes, depreciation expense will be recorded on a monthly basis.

Changes in Estimated Useful Lives

If it becomes apparent that the useful life of a particular capitalized asset will be less than the life originally established, an adjustment to the estimated useful life shall be made. All such changes in estimated useful lives of capitalized assets must be approved by the Controller.

When a change in estimated useful life is made, the new life is used for purposes of calculating annual depreciation expense. In the year in which the change in estimate is made, the cumulative effect of the change shall be reflected as depreciation expense in the Organization's statement of activities.

For example, if in the fourth year of an asset's life, it is determined that the asset will last five years instead of the original estimate of seven years, depreciation expense for that year shall be equal to the

difference between 4/5 of the asset's basis (accumulated depreciation at the end of year four) and 3/7 of the asset's basis (accumulated depreciation at the beginning of the year).

Repairs of Property and Equipment

Expenditures to repair capitalized assets shall be expensed as incurred if the repairs do not materially add to the value of the property or materially prolong the estimated useful life of the property.

Expenditures to repair capitalized assets shall be capitalized if the repairs increase the value of property, prolong its estimated useful life, or adapt it to a new or different use. Such capitalized repair costs shall be depreciated over the remaining estimated useful life of the property. If the repairs significantly extend the estimated useful life of the property, the original cost of the property shall also be depreciated over its new, extended useful life.

Dispositions of Property and Equipment

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

Write-Offs of Property and Equipment

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

LEASES

Classification of Leases

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

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

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

Reasonableness of Leases

Next Door Foundation assess the value of leases according to the requirements of A-122_43 as follows:

- The rate is reasonable when compared to similar property in the same area,
- The rate of any alternatives, and
- The type, life expectancy, condition and value of the property leased.

Rental arrangements will be reviewed every 3 to 5 years to determine if circumstances have changed and other options are available.

Accounting for Leases

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

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

Next Door Foundation shall also maintain a control list of all operating and capital leases. This list shall include all relevant lease terms, including a schedule of future annual lease payments obligations.

Scheduled Increases in Rent Payments

Leases with fixed (determinable amounts stated in the lease) increases in monthly rental payments shall be accounted for in a manner that results in an equal monthly rent expense being reported in each month over the entire initial lease term. Accordingly, monthly rent expense in the first year of such leases shall be greater than the monthly cash payment, with the difference being recorded as a liability. This liability will be reduced in the later years of the lease when the monthly cash rent payment is less than the monthly rent expense. To the extent future rent increases are not determinable at the beginning of the lease (because they are based on inflation or other factors), the preceding policy shall not apply and monthly rent expense shall be equal to the monthly cash payment, except as noted below.

Rent Abatements and Lease Incentives

Abatements of monthly rent payments, cash incentives, and other lease incentives shall be accounted for in a manner that results in an equal amount of monthly rent expense over the term of the lease agreement (before considering the effects of inflation-based rent increases, which will increase rent expense over the term of a lease). As a result, incentives received up front or over the early months of a lease, shall be established as a liability in Next Door Foundation's accounting records (as deferred lease incentives or some similar name). This liability shall be amortized as an offset (credit) to rent expense over the term of the lease agreement.

Changes in Lease Terms

As described in earlier policies, leasehold improvements and deferred rent incentives are amortized over the initial lease term. If such lease term is changed prior to the expiration of the initial lease term, Next Door Foundation will revise amortization to reflect the remaining lease term as of the effective date of the lease modification.

SOFTWARE ACQUISITION AND DEVELOPMENT COSTS

Costs to be Capitalized

Certain costs incurred in connection with the acquisition or development of internal-use software shall be capitalized and reported as an asset of the Organization. Those costs that shall be capitalized are those that are in excess of the Organization's capitalization threshold (explained earlier) and that meet any one of the following criteria:

1. External direct costs (i.e., amounts paid to vendors) of materials and services for developing or obtaining internal-use software ("developing" to include design, coding, installation and testing);
2. Internal payroll and related costs (employee benefit costs) for employees who are directly associated with, and who devote time to, an internal-use software project (i.e., the same types of software development costs described above);
3. Interest costs incurred in developing software; and
4. Costs associated with upgrades and enhancements when it is probable that these expenditures will result in additional functionality.

Costs that are capitalized in connection with the preceding policy shall be included as assets on the Organization's property and equipment listing, and shall be amortized over an estimated useful life in accordance with the previously stated policies on depreciation and amortization.

Costs to be Expensed as Incurred

Many costs associated with acquiring or developing internal-use software are to be expensed as incurred, rather than capitalized, including:

1. External and internal costs incurred in the preliminary project phases, such as costs associated with making decisions to allocate resources to the project, determining performance requirements and specifications, and reviewing and selecting vendors and consultants;
2. Research and development costs;
3. General and administrative costs;
4. Data conversion;
5. Training costs; and
6. Internal maintenance costs.

WEB SITE COSTS

Costs to Be Capitalized

Certain costs incurred in connection with the development of the Organization's web site shall be capitalized and reported as an asset of the Organization. Those costs that shall be capitalized are those that are in excess of the Organization's capitalization threshold (explained earlier) and that meet any of the following criteria:

1. Application and infrastructure development costs, including:
 - a. Development or acquisition of any software necessary to develop or operate the web site (e.g. HTML editor software, graphics software, etc.)
 - b. Development or acquisition and customization of code for web applications (e.g. search engines, order processing systems, etc.)
 - c. Development or acquisition and customization of database software needed to integrate applications
 - d. Development of HTML web pages or development of templates and writing of code to automatically create HTML pages
 - e. Obtaining and registering an Internet domain name
 - f. Installation of developed applications on the server(s)
 - g. Creation of initial hypertext links to other web sites or to destinations within the Organization's site
 - h. Testing the site applications
2. Graphics and content development costs, including the initial creation of graphics to be used on the site, the design or lay out of each page, color images, and the overall look and feel and usability of the site (e.g. buttons, borders, etc.), but NOT including the initial loading of content into the site, the costs of which are to be expensed as incurred.

Costs that are capitalized in connection with the preceding policy shall be included as assets on the Organization's property and equipment listing, and shall be amortized over an estimated useful life in accordance with the previously stated policies on depreciation and amortization.

Costs to Be Expensed As Incurred

Many costs associated with the Organization's web site are to be expensed as incurred, rather than capitalized, including the loading of content into the designed pages, as well as:

1. Planning stage costs, such as:
 - a. Development of a project or business plan
 - b. Determining functionalities or specifications of the site
 - c. Determining hardware and technology requirements
 - d. Conceptual formulation of graphics and content
 - e. Evaluation and selection of vendors
 - f. Addressing legal considerations, such as copyright and trademark issues

2. Operating costs, such as:
 - a. Training employees involved in support of the site
 - b. Registering the site with search engines
 - c. User administration activities
 - d. Updating site graphics
 - e. Performing backups
 - f. Creating new links
 - g. Verifying that links are functioning properly
 - h. Adding new functionalities or features (however, see below)
 - i. Performing routine security reviews
 - j. Performing routine analysis

Certain upgrades and enhancements to the site shall be capitalized and amortized over an estimated useful life. Upgrades or enhancements that result in additional functionality shall be capitalized.

POLICIES PERTAINING TO LIABILITY AND NET ASSET ACCOUNTS

ACCRUED LIABILITIES

Identification of Liabilities

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

- Salaries and wages
- Payroll taxes
- Vacation pay (see policy below)
- Interest on notes payable

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

Accrued Leave

Personnel policies permit employees to carry forward up to [XX weeks] of unused leave from year to year. Such unused leave is payable to an employee upon termination of employment.

Accordingly, Next Door Foundation records a liability for accrued leave to which employees are entitled. The total liability at the end of an accounting period shall equal the total earned but unused hours of leave, up to a maximum of 1.5 times the annual accrual, multiplied by each employee's current hourly pay rate.

Leave that does not "vest" with employees (i.e., leave that is not paid to employees if unused at the time of termination of employment), such as sick leave, shall not be accrued as a liability.

NOTES PAYABLE

General Policy

Next Door Foundation requires that all notes payable be approved by the Board of Directors and signed by the Executive Director.

Recordkeeping

Next Door Foundation maintains a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents and shall include all of the following information:

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

Accounting and Classification

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

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

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

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

NET ASSETS

Classification of Net Assets

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

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

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

Permanently Restricted Net Assets - Net assets subject to donor imposed stipulations that the Organization permanently maintain certain contributed assets. Generally, donors of such assets permit the Organization to use all or part of the income earned from permanently restricted net assets for general operations or for specific purposes. Permanent restrictions do not pass with the expiration of time, nor can they be removed through the Organization's actions.

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

Restrictions may be associated with either a time period (e.g. a particular future time period) or a purpose (e.g. specific programs). A purpose stipulation will be considered a restriction only if it is more specific than the broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in Next Door Foundation's Articles of Incorporation and Bylaws.

Reclassifications from Restricted to Unrestricted Net Assets

The Organization shall report in its statement of activities a reclassification from restricted to unrestricted net assets if any of the following events occur:

1. Fulfillment of the purpose for which the net assets were restricted (e.g. spending restricted funds for the stipulated purpose)
2. Expiration of time restrictions imposed by donors
3. Death of an annuity beneficiary
4. Withdrawal by the donor (or by a court) of a time or purpose restriction

If a donor stipulates multiple restrictions (such as a purpose and a time restriction), reclassifications from temporarily restricted to unrestricted net assets shall be reported only upon the satisfaction of the final remaining restriction.

Reclassifications from Unrestricted to Restricted Net Assets

If the Organization receives a restricted contribution from a donor who further stipulates that the Organization set aside a portion of its unrestricted net assets for that same purpose, the Organization shall report in its statement of activities a reclassification of net assets from unrestricted to temporarily or permanently restricted, based on the specific nature of the restriction.

Disclosures

The Organization discloses in a footnote to the financial statements the different types of temporary and permanent restrictions associated with the Organization's net assets as of the end of each fiscal year.

POLICIES ASSOCIATED WITH FINANCIAL AND TAX REPORTING

FINANCIAL STATEMENTS

Standard Financial Statements of the Organization

Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to the Organization. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

The basic financial statements that are maintained on an organization-wide basis shall include:

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

Frequency of Preparation

The objective of the Fiscal Department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:

A standard set of financial statements described in the preceding section shall be produced on a monthly basis, by the 20th of each month. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:

1. Individual statements of activities on a departmental and functional basis (and/or program/grant basis)
2. Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts

The monthly set of financial statements shall be prepared on the accrual method of accounting, including all receivables, accounts payable received by the second Friday of the month, and actual depreciation expense.

Review and Distribution

All financial statements and supporting schedules shall be review and approved by the Controller prior to being issued by the Fiscal Department.

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

- Finance and Administration Committee
- Executive Director
- VP of Administration
- Department Directors and any other employee with budget-monitoring responsibilities

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

Budget Variance Analysis and Projections

On a quarterly basis, financial statements distributed to Department Directors with budgetary responsibilities shall be accompanied by a request for variance analysis and projections. Each Department Director shall prepare a report explaining the reasons for year-to-date variances from budget in excess of the greater of \$1,000 or five percent for each line item. In addition to explaining the reasons for such variances, Department Directors shall also provide a projection of the annual variance from budget or the steps that will be taken to avoid budget variances by year-end.

Budget variance reports prepared by Department Directors shall be submitted to the Controller no later than 30 days after the end of each quarter and shall be reviewed by the Controller.

Department Directors will inform the Controller as soon as they become aware of variances in future periods that will exceed the budget amount by five percent. The Department Director and the Controller will determine if awarding agency approval is required for any budget changes.

Monthly Distribution

On a monthly basis, the Board of Directors will be provided with summary program and/or grant financial information.

Special Quarterly [Semi-Annual] Distribution

On a quarterly basis, a complete set of Next Door Foundation financial statements and supplemental schedules shall be distributed to the entire Board of Directors.

Quarterly financial statements distributed to the board shall include an additional supplemental schedule prepared or compiled by the Controller. The purpose of this schedule is to provide explanations for material budget variances in accordance with Next Door Foundation's budget monitoring policies described later in this manual (under the "Financial Management Policies" section).

Annual Financial Statements

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

Trend Analysis

On an annual basis, in connection with the preparation of the preceding financial statements, the Controller shall prepare a five-year revenue and expense report in order to facilitate the analysis of financial trends experienced by the Organization. This report shall also include a five-year comparison of certain key operating ratios, based on the Organization's annual financial statements. This report shall be submitted to the Executive Director and the Finance and Administrative Committee no later than 90 days after year end audit.

GOVERNMENT RETURNS

Overview

To legitimately conduct business, Next Door Foundation must be aware of its tax and information return filing obligations and comply with all such requirements of Federal, state and local jurisdictions. Filing requirements of Next Door Foundation include, but are not limited to, filing annual information returns with IRS, annual reports for corporations, income tax returns, annual reporting of compensation paid, and payroll tax withholding tax returns.

Filing of Returns

The Controller shall be responsible for identifying all filing requirements and assuring that Next Door Foundation is in compliance with all such requirements. The Organization will file complete and accurate returns with all authorities and make all efforts to avoid filing misleading, inaccurate, or incomplete returns.

Filings made by Next Door Foundation include, but are not limited to, the following returns:

1. **Form 990** - Annual information return of tax-exempt organizations, filed with IRS. Form 990 for Next Door Foundation is due on the fifteenth day of the fifth month following year-end. An automatic 3-month extension of time to file Form 990 may be obtained filing Form 8868. Upon expiration of the first 3-month extension, a second 3-month extension may be requested using Form 8868.
2. **Form 1952** – Charitable Organization Annual Financial Report, Wisconsin’s supplement to financial report on form other than form 308, filed with Department of Regulation and Licensing, division of professional credential processing. Form 1952 for DCPC is due June 30.
3. **Form 5500** - Annual return for Next Door Foundation's employee benefit plans. Form 5500 is due July 31, but a request for extension of time to file may be filed.
4. **W-2's and 1099's** - Annual report of employee and non-employee compensation, based on calendar-year compensation, on the cash basis. These information returns are due to employees and independent contractors by January 31 and to Federal Government by February 28.

As an added internal control, Forms W-2's are delivered to employees only by mail, never by hand. Any mailed W-2's that are returned as undeliverable by the U.S. Postal Service should be thoroughly investigated as this could be an indicator of a “ghost employee.”

5. **Form 940** - Annual state unemployment tax return filed with IRS, under IRC section 501(c)(3), are due January 31. DCPC is a charitable organization exempt from federal unemployment tax, FUTA.
6. **Form 941** - Quarterly payroll tax return filed with IRS to report wages paid to employees and Federal payroll taxes. Form 941 is due by the end of the month following the end of each quarter, or 10 days later if all payroll tax deposits have been made in a timely manner during the quarter.

Next Door Foundation's fiscal and tax year-end is June 30. All annual tax and information returns of Next Door Foundation (Form 990) are filed on the accrual basis of reporting.

Federal and all applicable state payroll tax returns are prepared by the Organization's Senior Accountant and reviewed by the Controller.

Next Door Foundation complies with all state payroll tax requirements by withholding and remitting payroll taxes to the state of residency of each Next Door Foundation employee.

Public Access to Information Returns

Under regulations that became effective in 1999, Next Door Foundation is subject to Federal requirements to make the following forms "widely available" to all members of the general public:

1. The three most recent annual information returns (Form 990), excluding the list of significant donors (Schedule B) that is attached to the Form 990, but including the accompanying Schedule A, and
2. Next Door Foundation's original application for recognition of its tax-exempt status Form 1023, filed with IRS, and all accompanying schedules and attachments.

Next Door Foundation adheres to the following guidelines in order to comply with the preceding public disclosure requirements:

1. Anyone appearing in person at the offices of Next Door Foundation during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Controller shall be responsible for maintaining this copy of each form and for making it available to all requesters.
2. For all written requests for copies of forms received by Next Door Foundation, the Organization shall require prepayment of all copying and shipping charges. For requests for copies that are received without prepayment, Next Door Foundation will notify the requester of this policy via phone call or by letter within 7 days of receipt of the original request.
3. The copying cost charged for providing copies of requested forms shall be \$1.00 for the first page copies and \$0.15 for each subsequent page. All copies shall be shipped to requesters via Priority Mail, thus, shipping charges will be a standard \$4.00 per shipment.
4. After payment is received, all requested copies shall be shipped to requesters within 30 days. Making of all copies and shipping within the 30-day time period shall be the responsibility of the Fiscal Department.
5. For requests for copies made in person during normal business hours, copies shall be provided while the requester waits.

6. Next Door Foundation shall accept certified checks and money orders for requests for copies made in person. Next Door Foundation shall accept certified checks, money orders and personal checks as payment for copies of forms requested in writing.

UNRELATED BUSINESS ACTIVITIES

Identification and Classification

Next Door Foundation properly identifies and classifies income-producing activities that are unrelated to the Organization's tax-exempt purpose using the guidelines described in the Internal Revenue Code and underlying regulations. Such income accounts shall be segregated in separate accounts in the general ledger in order to facilitate tracking and accumulation of unrelated trade or business activities.

Allocation of Expenses to Unrelated Activities

In addition to segregating income associated with activities that are unrelated to Next Door Foundation's exempt purpose, the Organization's general ledger shall also provide accounts for expenses associated with each such unrelated activity. These expenses shall be offset against unrelated business revenue in arriving at unrelated business taxable income. Expenses that shall be offset against gross unrelated business income shall be limited to those expenses directly associated with the production of such income, including reasonable allocation of joint costs that benefit each activity, in accordance with expense allocation policies described elsewhere in this manual.

Reporting

Next Door Foundation will file IRS Form 990-T to report taxable income from unrelated trade or business activities. Form 990-T is not subject to any public access or disclosure requirements. Accordingly, it is the policy of Next Door Foundation not to distribute copies of Form 990-T to anyone other than management of the Organization.

Next Door Foundation shall also report taxable income from unrelated trade or business activities that are subject to state or local income or franchise taxes on the appropriate return identify states and returns required.

FINANCIAL MANAGEMENT POLICIES

BUDGETING

Overview

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

Budgets are also prepared for funding sources and each grant manager must be aware of budget modification requirements. Awarding agencies may or may not require approval for changes in line items. Next Door Foundation will document and follow all such requirements.

Preparation and Adoption

Next Door Foundation will prepare an annual budget on the accrual basis of accounting. The Controller gathers proposed organization-wide budget information from all Department Directors and prepares the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all department budgets by the Controller, a draft of the Organization-wide budget, as well as individual department budgets, is presented to the Executive Director for discussion, revision, and initial approval.

The revised draft is then submitted to the Finance and Administration Committee, and finally to the entire Board of Directors for adoption.

It is the policy of Next Door Foundation to adopt a final budget at least 30 days before the beginning of the Organization's fiscal year. The purpose of adopting a final budget at this time is to allow adequate time for the Fiscal Department to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts) to ensure proper classification of activities and comparison of budget versus actual once the year begins.

Budgets for programs that are not on the Organization's fiscal year will be prepared in accordance with awarding agency requirements.

Monitoring Performance

Next Door Foundation monitors its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

On a monthly basis, financial reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by the Fiscal Department and distributed to each employee with budgetary responsibilities. These individuals shall be responsible for responding with a written explanation of all budget variances in excess of ten percent on a quarterly basis.

In addition, Department Directors shall submit monthly performance (non-financial) reports to the Executive Director, the Controller and Board of Directors.

Budget and Program Revisions

Next Door Foundation will request prior approval from Federal awarding agencies for any of the following program or budget revisions:

1. Change in the scope or objective of the project or program, even if there is no associated budget revision requiring prior written approval.
2. Change in a key person (Project Director, etc.) specified in the application or award document.
3. The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved Project Director or principal investigator.
4. The need for additional Federal funding.
5. The transfer of amounts budgeted for joint costs to absorb increases in direct costs, or vice versa, if approval is required by the Federal awarding agency.
6. The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with OMB Circular A-122.
7. The transfer of funds allotted for training allowances (direct payment to trainees) to other categories of expense.
8. Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award. (However, this provision does not apply to purchases of supplies, materials, equipment or general support services.)

Budget Modifications

After a budget has been approved by the Board of Directors and adopted by the Organization, reclassifications of budgeted expense amounts of less than \$5,000 within a single department may be made by the Department Director, with approval from the Controller. Reclassifications of budgeted expense amounts across departments of less than \$10,000 may be made only with approval of the Executive Director.

Reclassifications in excess of the preceding thresholds, and any budget modification resulting in an increase in budgeted expenses or decrease in budgeted revenues shall be made only with approval of the Finance Committee or full Board of Directors.

ANNUAL AUDIT

Role of the Independent Auditor

Next Door Foundation will arrange for an annual audit of the Organization's financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by the Board of Directors will be required to communicate directly with the Organization's Finance and Administrative Committee upon the completion of their audit. In addition, members of the Finance and Administrative Committee and Executive Committee are authorized to initiate communication directly with the independent accounting firm.

Audited financial statements, including the auditor's opinion thereon, will be submitted and presented to the Board of Directors by the independent accounting firm at the Organization's Annual Meeting, after the financial statements have been reviewed and approved by the Finance and Administrative Committee.

How Often to Review the Selection of the Auditor

Next Door Foundation shall review the selection of its independent auditor in the following circumstances:

1. Anytime there is dissatisfaction with the service of the current firm
2. When a fresh perspective and new ideas are desired
3. Every 10 years to ensure competitive pricing and a high quality of service (this is not a requirement to change auditors every ten years; simply to re-evaluate the selection)

Selecting an Auditor

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

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

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

1. Period of services required
2. Type of contract to be awarded (fixed fee, cost basis, etc.)
3. Complete description of the services requested (audit, management letter, tax returns, etc.)

4. Identification of meetings requiring their attendance, such as staff or Board of Director meetings
5. Organization chart of Next Door Foundation
6. Chart of account information
7. Financial information about the Organization
8. Copy of prior year reports (financial statements, management letters, etc.)
9. Identification of need to perform audit in accordance with OMB Circular A-133
10. Other information considered appropriate
11. Description of proposal and format requirements
12. Due date of proposals
13. Overview of selection process (i.e., whether finalists will be interviewed, when a decision shall be made, etc.)
14. Identification of criteria for selection

Minimum Proposal Requirements from prospective CPA firms shall be:

1. Firm background
2. Biographical information (resumes) of key firm member who will serve Next Door Foundation
3. Client references
4. Information about the firm's capabilities
5. Firm's approach to performing an audit
6. Copy of the firm's most recent quality/peer review report, including any accompanying letter of findings
7. Other resources available with the firm
8. Expected timing and completion of the audit
9. Expected delivery of reports
10. Cost estimate including estimated number of hours per staff member
11. Rate per hour for each auditor
12. Other information as appropriate

In order to narrow down the proposals to the top selections, the Controller shall meet with the prospective engagement teams from each proposing firm to discuss their proposal. Copies of all proposals shall be forwarded to each member of the Finance and Administrative Committee. After the Controller narrows down the field of prospective auditors to three firms, final interviews of each firm are conducted by the Finance and Administrative Committee, who makes the final recommendation to the Board of Directors for approval.

Preparation for the Annual Audit

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

Planning - The Controller is responsible for delegating the assignments and responsibilities to accounting staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm.

Involvement - Organization staff will do as much work as possible in order to assist the auditors and, therefore, reduce the cost of the audit.

Interim Procedures - To facilitate the timely completion of the annual audit, the independent auditors may perform selected audit procedures prior to the Organization's year-end. By performing significant portions of audit work as of an interim date, the work required subsequent to year-end is reduced. Organization staff will provide requested schedules and documents to assist the auditors during any interim audit fieldwork.

Throughout the audit process, Next Door Foundation will make every effort to provide schedules, documents and information requested by the auditors in a timely manner.

Concluding the Audit

Upon receipt of a draft of the audited financial statements of Next Door Foundation from its independent auditor, the Controller shall perform a detailed review of the draft, consisting of the following procedures:

1. Carefully read the entire report for typographical errors
2. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of Next Door Foundation
3. Review each footnote for accuracy and completeness

Any questions or errors noted as part of this review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Controller.

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

In addition, the Single Audit Clearinghouse form shall be completed and a copy submitted to the Finance and Administrative Committee.

Finance and Administrative Committee Responsibilities

In accordance with the Next Door Foundation by-laws, there shall be an Finance and Administrative Committee consisting of five members. The term of office shall be for three years, with one member being elected by the Next Door Foundation Board of Directors each year.

See the "Board Governance" section of this manual, as well as the Finance and Administrative Committee Charter, for a detailed description of the Finance and Administrative Committee's responsibilities and its authority.

INSURANCE

Overview

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

Next Door Foundation maintains adequate insurance against general liability, as well as coverage for buildings, contents, computers, fine arts, equipment, machinery and other items of value.

Coverage Guidelines

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

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Comprehensive Liability	\$1,000,000
Commercial Umbrella Liability	\$5,000,000
Automobiles for Employees, Volunteers, or Escorts	\$1,000,000
Employee dishonesty/bonding	\$500,000
Directors and Officers	\$2,000,000
Workers' Compensation	To the extent required by law

<u>Insurance Carrier</u>	<u>Policy Number</u>
Selective Insurance	2429
The Travelers Insurance Company	87726
Rochdale Insurance Company	12491

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

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

Insurance Definitions

Workers' Compensation and Employer's Liability

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

Fidelity Bond

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

Comprehensive Liability

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

RECORD RETENTION

Policy

Next Door Foundation retains records as required by law and destroys them when appropriate. The destruction of records must be approved by the Controller, and logged into the Organization's Destroyed Records Log. The formal records retention policy of Next Door Foundation is as follows:

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

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

BOARD GOVERNANCE

FINANCE AND ADMINISTRATIVE COMMITTEE

Purpose

The primary responsibility for the Organization's financial reporting and internal controls rests with senior operating management, as overseen by the Organization's Board of Directors (the "Board"). The purpose of the Finance and Administrative Committee (the "Committee") is to assist the Board in fulfilling this responsibility by providing oversight of the Organization's audit functions (external and internal), as well as other investigations (external and internal).

Authority

The Finance and Administrative Committee has authority to:

- Retain the Organization's external [and internal] auditors.
- Investigate any matter brought to its attention with complete and unrestricted access to all books, records, documents, facilities, and personnel of the Organization.
- Retain outside counsel, auditors, investigators, or other experts in the fulfillment of its responsibilities, including the sole authority to approve the firms' fees and other retention terms.

The Committee shall be provided with the resources necessary to discharge its responsibilities. The Board shall review the adequacy of this Charter on an annual basis. The Committee may form and delegate authority to subcommittees and may delegate authority to one or more members of the Committee.

Membership

The Finance and Administrative Committee shall be a standing committee of the Board of Directors, comprised of not less than five members of the Board. Members of the Committee shall:

1. Have no relationship to the Organization that may interfere with the exercise of their independence from management and the Organization;
2. Not be members of the Organization's Finance Committee, a separate committee of the Board of Directors;
3. Be financially literate regarding the specialized matters of Organization or shall acquire such financial literacy within a reasonable time period after appointment to the Committee.

In addition, at least one member of the Committee shall be a financial expert possessing the following characteristics:

1. An understanding of generally accepted accounting principles applicable to the Organization and financial statements;
2. The ability to assess the application of generally accepted accounting principles in connection with accounting for estimates, accruals, and reserves of the Organization;
3. Experience preparing, auditing, analyzing, or evaluating financial statements of comparable complexity to those of the Organization;
4. Understanding of internal controls and procedures for financial reporting; and
5. Understanding of Finance and Administrative Committee functions.

Appointments to the Finance and Administrative Committee shall be for two-year terms and eligible for consecutive appointments of no more than one additional two-year term.

Responsibilities

The Committee's role is one of oversight, recognizing that the Organization's management is responsible for preparing the Organization's financial statements and that the external auditors are responsible for auditing those financial statements. The Committee recognizes that the Organization's internal financial management team, as well as the external auditors, have more time and detailed information about the Organization than do Committee members. Consequently, in discharging its oversight responsibilities, the Committee is not providing expert advice or any assurances as to the Organization's financial statements or any professional certification as to the external auditor's services.

The Committee shall have certain responsibilities in the areas of financial reporting, internal control, and organizational governance.

In the areas of financial **reporting and internal control**, the Committee shall:

- Oversee the external audit process, including nomination of the external audit firm, auditor engagement letters and fees, timing and coordination of audit fieldwork visits, monitoring of audit results, review of auditor's performance, and review of non-audit services provided by the external audit firm for compliance with professional independence standards;
- Review accounting policies;
- Review the Organization's financial statements, including year-end and interim financial statements, other reports requiring approval by the Board before submission to government agencies, and auditor opinions and management letters;
- Determine that all required tax and information return filings with Federal, state and local government agencies are current and in compliance with reporting requirements;
- Receive and review any other communications from the external auditors that the external auditors are required to submit to the Board or Committee under currently applicable professional auditing standards;

- Review and discuss with management the findings and recommendations communicated by the external auditor;
- Inquire about the existence and nature of significant audit adjustments proposed by the external auditors and significant estimates made by management;
- Meet privately with the external auditors to discuss the quality of management, financial, accounting, information technology and internal audit personnel, and to determine whether any restrictions have been placed by management on the scope of their external audit or if there are any other matters that should be discussed with the Committee;
- Review the letter of management representations provided to the external auditors as part of the annual audit and inquire as to whether any difficulties were encountered in obtaining the representation letter;
- Prepare a report, signed by the chair of the Committee, for presentation to the full Board of Directors, describing the activities and responsibilities of the Committee.
- Direct special investigations into significant matters brought to its attention within the scope of its duties;
- Review this Charter on an annual basis and propose any recommended changes to the Board.

In the area of Organizational **governance**, the Committee shall:

- Review Organization policies regarding compliance with laws and regulations, ethics, employee conduct, conflicts of interest, and the investigation of misconduct or fraud;
- Review current and pending litigation or regulatory proceedings impacting Organizational governance in which the Organization is a party;
- Establish and monitor Organization procedures for receiving and handling complaints about accounting and auditing matters;
- Review significant cases of employee or director conflict of interest, misconduct or fraud;
- Review and approve the internal audit charter, which explains the framework for providing internal audit services to management and the Committee;
- Review and approve management's appointment and termination of the Organization's Director of Internal Audit;
- Review plans and budgets associated with the internal audit function to determine that audit objectives, plans, financial budgets, and schedules provide for adequate support of the Finance and Administrative Committee's goals and objectives;
- Require the Director of Internal Audit to prepare a written report on an annual basis describing the scope and results of internal audit procedures;
- Discuss with the Director of Internal Audit and the external audit firm the reliability of the Organization's information technology system and any specific security measures in protecting the Organization against fraud and abuse;
- Meet regularly with the Organization's general counsel to discuss legal matters that may have a significant impact on the Organization.

The Committee shall meet on a regular basis and call special meetings as deemed necessary in fulfilling the responsibilities described in this Charter.

SUBRECIPIENTS

Making of Subawards

From time to time, Next Door Foundation may find it practical to make subawards of Federal funds to other organizations. All subawards in excess of the small purchase threshold shall be subject to the same procurement policies described in the preceding section. In addition, all subrecipients must be approved in writing by the Federal awarding agency and agree to the subrecipient monitoring provisions described in the next section.

With respect to subrecipients with whom Next Door Foundation has not recently had a subaward relationship, the Fiscal Department shall determine an appropriate level of pre-award inquiry that shall be performed. The purpose of such inquiry, which may involve a site visit to a potential subrecipient, is to gain assurance that a potential subrecipient has adequate policies and procedures in place to provide reasonable assurance that it is capable complying with all applicable laws, regulations and award provisions. In addition, Next Door Foundation shall obtain the following documents from all new subrecipients:

1. Articles of Incorporation
2. Bylaws or other governing documents
3. Determination letter from the IRS (recognizing the subrecipient as exempt from income taxes under IRC section 501(c)(3))
4. Last three years' Forms 990 or 990-EZ, including all supporting schedules and attachments (also Form 990-T, if applicable)
5. Copies of the last three years' audit reports and management letters received from subrecipient's independent auditor (including all reports associated with audits performed in accordance with OMB Circular A-133, if applicable)
6. Copy of the most recent internally-prepared financial statements and current budget
7. Copies of reports of government agencies (Inspector General, state or local government auditors, etc.) resulting from audits, examinations, or monitoring procedures performed in the last three years

Monitoring of Subrecipients

When Next Door Foundation utilizes Federal funds to make subawards to subrecipients, Next Door Foundation is subject to a requirement to monitor each subrecipient in order to provide reasonable assurance that subrecipients are complying, in all material respects, with laws, regulations, and award provisions applicable to the program.

In fulfillment of its obligation to monitor subrecipients, the following policies apply to all subawards of Federal funds made by Next Door Foundation to subrecipients:

1. Subaward agreements shall include all information necessary to identify the funds as Federal funding. This information shall include:
 - a. The applicable Catalog of Federal Domestic Assistance (CFDA) title and number
 - b. Award name

- c. Name of Federal agency
 - d. Amount of award
2. Subaward agreements shall identify all applicable audit requirements, including the requirement to obtain an audit in accordance with OMB Circular A-133, if the subrecipient meets the criteria for having to undergo such an audit.
 3. Subawards shall include a listing of all applicable Federal requirements that each subrecipient must follow.
 4. Subawards shall require that subrecipient employees responsible for program compliance obtain appropriate training in current grant administrative and program compliance requirements.
 5. Subawards shall require that subrecipients submit financial and program reports to Next Door Foundation on a basis no less frequently than monthly.
 6. Next Door Foundation will follow up with all subrecipients to determine whether all required audits have been completed. Next Door Foundation will cease all funding of subrecipients failing to meet the requirement to undergo an audit in accordance with OMB Circular A-133. For subrecipients that properly obtain an audit in accordance with OMB Circular A-133, Next Door Foundation shall obtain and review the resulting audit reports for possible effects on Next Door Foundation's accounting records or audit.
 7. Next Door Foundation shall assign one of its employees the responsibility of monitoring each subrecipient on an ongoing basis, during the period of performance by the subrecipient. This employee will establish and document, based on her/his understanding of the requirements that have been delegated to the subrecipient, a system for the ongoing monitoring of the subrecipient.
 8. Ongoing monitoring of subrecipients will vary from subrecipient to subrecipient, based on the nature of work assigned to each. However, ongoing monitoring activities may involve any or all of the following:
 - a. Regular contacts with subrecipients and appropriate inquiries regarding the program.
 - b. Reviewing programmatic and financial reports prepared and submitted by the subrecipient and following up on areas of concern.
 - c. Monitoring subrecipient budgets.
 - d. Performing site visits to the subrecipient to review financial and programmatic records and assess compliance with applicable laws, regulations, and provisions of the subaward.
 - e. Offering subrecipients technical assistance where needed.
 - f. Maintaining a system to track and follow up on deficiencies noted at the subrecipient in order to assure that appropriate corrective action is taken.
 - g. Establishing and maintaining a tracking system to assure timely submission of all reports required of the subrecipient.
 9. Documentation shall be maintained in support of all efforts associated with monitoring of subrecipients.