Pathway Family Services, Inc.

Financial Policy Manual

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Introduction

Pathway Family Services, Incorporated (PFS), is a registered non-profit corporation which is Licensed by Community Care Licensing, Sacramento California. PFS services Kern, Santa Barbara, San Luis Obispo, Riverside and San Bernardino Counties, located in Central and Southern California. Specifically, PFS includes Administration, IT, HR, Finance Manager, Children's Programs, and other managed Family related Programs.

PFS is funded mainly by program revenues for foster care placements, adoption social studies, emergency foster care placements and resource family assessment services. The deposit, investment and expenditure of these funds are subject to the California Department of Social Services Foster Care Audits and Rates Branch. PFS is subject to an annual financial audit by an independent CPA firm and a separate audit by California Department of Social Services foster Care Audits and Rates Branch every two years.

The purpose of the Financial Policy Manual (FPM) is to provide PFS Board members, Executive Director, Executive Administration, and the *Finance Manager* with direction and guidance in connection with those financial transactions, procedures, and reports that should be uniform within PFS operations.

The goal is to make the Financial Policy Manual as clear and useful as possible. All users are encouraged to contact the Executive Director with any suggestions for revising or improving the Financial Policy Manual.

The PFS Corporate Office

The Pathway Family Services Corporate Office serves as the corporate accounting office for the entire organization.

The *Finance Department* provides a full array of financial services, including payroll. The *Finance Department* is responsible for handling income deposits, processing disbursement checks and purchase orders, reconciling financial records, and preparing financial reports The *Finance Department* is also available to provide financial advice and assistance to the CEO and the PFS board treasurer.

The *Finance Department* provides numerous services to the organization. These services include: health insurance, IRA benefits, employee reimbursements, check request processing, preparing financial reports for Executive Director as well as Board of Directors upon request and the distribution of payroll checks. The Finance Manager's operating procedures are located at the PFS corporate office.

Definitions

<u>Accounts Payable</u>. Payments due to vendors and contractors for services or goods provided and completed.

<u>Accounts Receivable</u>. A current asset representing money due for services performed or merchandise sold on credit.

<u>Accrual Basis of Accounting</u>. Wherein revenue and expenses are recorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period.

<u>Accrued Expenses</u>. Expenses incurred during an accounting period for which payment is postponed.

<u>Accrued Revenue</u>. Funds for goods and services have been provided, but payment not yet received.

<u>Accumulated Depreciation</u>. The cumulative charges against fixed assets for wear and tear or obsolescence.

<u>Assets</u>. An asset is an element of the financial statements constituting resources or claims, at a moment in time or as of a certain date. Assets represent items of value that the enterprise owns and controls.

<u>Bad Debt</u>. An open account balance or lien receivable that has proven to be uncollectible and is written off.

<u>Balance Sheet (Statement of Financial Position)</u>. An itemized statement that lists the total assets and the total liabilities of a given business to portray its net worth at a given moment of time. The amounts shown on a balance sheet are generally the historic cost of items and not their current values.

<u>Budget</u>. An itemized listing of the amount of all estimated revenue which a given business anticipates receiving, along with a listing of the amount of all estimated costs and expenses that will be incurred in obtaining the above mentioned income during a given period.

<u>Capital Asset</u>. A Long-term asset that is not purchased or sold in the normal course of business. Generally, it includes fixed assets, e.g., computers, buildings, furniture, equipment, fixtures and furniture.

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Chart of Accounts. A systematic listing of all accounts used by the company in order to maintain order and organization for the accounting records.

Deferred. Any account where the asset or liability is not realized until a future date, e.g., annuities, charges, taxes, income, etc. The deferred item may be carried, dependent on type of deferral, as either an asset or liability.

Deferred Revenue. Funds that are received for goods and services that have not yet been provided. Since it is generally expected that the enterprise will perform or deliver these goods or services within the next accounting period, these advances are recorded as current liabilities on the Balance Sheet.

Expenses. Expenses consist of outflows of cash or charges relating to rendering services or carrying out other activities that constitute the enterprise's operations and related support undertakings (for example, administrative activities, operations, and management).

Financial Accounting Standards Board (FASB). The designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information.

Fixed Assets. Those assets of a permanent nature required for the normal conduct of a business, and which will not normally be converted into cash during the ensuing fiscal period. For example, furniture, fixtures, land, and buildings are all fixed assets. However, accounts receivable and inventory are not.

Generally Accepted Accounting Principles (GAAP). A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

Liability. Financial obligations to outside parties who have furnished resources to the enterprise (for example, goods or services purchased, financing capital goods or systems, or taxes incurred but not yet paid).

Net Income. The difference between total revenue and total expenses for a business enterprise.

Prepaid Expenses. Amounts that are paid in advance to a vender or creditor for goods and services. These payments are recorded as current assets on the Balance Sheet. (see Deferred Revenue)

Statement of Activities and Changes in Net Assets (Profit and Loss Statement). It shows business revenue and expenses for a specific period. The difference between the total revenue and the total expense is the total business net income. A key element of this statement, and one that distinguishes it from the balance sheet, is that the amount shown on the statement represents transactions over a period while the items represented on the balance sheet show information as of a specific date (or point of time).

Restricted Assets. Assets/resources which are restricted by legal or contractual requirements for use under specific circumstances or purposes.

Revenue Recognition. The process of recording revenue, under one of the various acceptable methods, in the accounting period. In each period of revenue recognition, all related expenses should be matched to revenue. The most common method of recognizing revenue is at the time of sale or provisioning of service.

Revenue. Revenue is income received in exchange for performing services or other activities that make up the ongoing major operations and related support functions, or from producing or delivering goods.

Unallocated Revenue. Funds held temporarily in suspense (not available for use) pending final allocation.

Unearned Revenue/Income. Represents money that has been received in advance of providing goods or services to the customer. Unearned revenue is a liability of the business until the agreed upon goods or services have been provided to the customer.

Zero Based Budgets. Where the expense or costs of the prior year are not taken into consideration when establishing expense or budgetary levels looking forward. Each expense category starts from zero. All expenses or cost levels within the budget must be justified or re-justified as being necessary; thus “zero-base.”

Compliance with Financial Policies

Every employee who conducts transactions that affect PFS funds must comply with all the applicable laws, regulations, and special restrictions.

To ensure compliance, the Executive Director, and the *Finance Department* shall adopt the following practices:

A. Financial Reporting

1. PFS will conduct transactions in compliance with applicable financial reporting requirements, including Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board (FASB) Statements. The basic requirements of these standards as applied by PFS include the following:
    a. Sources and uses of funds must be segregated by the type of activity they support in accordance with any restrictions imposed on their use.
    b. Revenues are reported as earned when goods or services are provided. Expenditures are reported when goods or services are received.
    c. Accrued Revenue occurs when goods and services have been provided, but payment has not been received.
    d. Accrued Expenditures occur when good or service are received in an accounting period and payment has not been made.
2. Accounting Principles must be applied consistently, both within fiscal years and between fiscal years. The PFS Executive Director and the Finance Manager is charged with ensuring consistent, PFS-wide application of these accounting principles.
    a. Reports to sponsoring entities will be made according to the specific reporting requirements. In general, most sponsoring entities require adherence to GAAP.

B. Record Retention

The *Finance Manager* will maintain financial records in compliance with regulatory requirements and PFS policy. This includes:

1. Maintaining records for a period of three years from the latter of the last Executive Director Compliance Audit or the filing of all required reports.
2. In cases where there is pending litigation or audits, records must be maintained until the action is concluded.

C. Expenditures

All expenditures must comply with applicable regulatory and legal requirements and PFS policy.

1. Federal and state restrictions must be followed.
2. When goods and services are purchased for PFS, the following requirements apply:

   a. The ***Finance Department/ Manager*** under the direction of the Executive Director is the approving or purchasing representative for PFS Information Technology (hardware and software) assets.

   b. Any person who makes unauthorized purchases or contract services shall be responsible for the payment of all charges incurred.

   c. Purchases exceeding $1,000 must be conducted through Executive Director. Purchases exceeding $5,000 must be conducted through the Executive Director with Board of Directors approval, unless it is a pre-authorized approved budget item.

   d. Goods and services for individual or for non-PFS activities shall not be made using PFS credit or facilities. If purchased items appear to be of personal nature, the PFS purpose must be clearly and properly documented (for example clothes for foster children, food for agency events).
3. Actions affecting a person's compensation must adhere to the following additional requirements:

   a. Providing the ***Finance Department/ Manager*** with all the data needed to process that person's paycheck, including:
   - Name
   - Social Security Number
   - Tax Withholding forms
   - Pay rate
   - Hiring department code and name

   b. Updating such information so that checks may be issued in a timely manner;

   c. Ensuring that other payroll information is updated accurately and timely that affects such items as:
   - Medicare
   - SDI
   - Retirement plans (If and when implemented)
   - Voluntary withholdings such as insurance and various employee benefit programs

   d. Adhering to all time keeping requirements for compensation.

D. Reporting Fraudulent or Illegal Acts

Any person who becomes aware of fraudulent or illegal business transactions conducted in the name of PFS shall properly report the fraudulent or illegal act.

This includes:

1. Any person who suspects that fraud or illegal activities are taking place in his or her department must report that suspicion immediately to their immediate supervisor. If the employee believes that the supervisor is involved, or is otherwise uncomfortable reporting in this manner, he or she must immediately notify the Executive Director. Supervisors to whom such reports are made must review them, and if they have merit, report them to the next level of management.
2. Individuals conducting business on behalf of PFS are personally responsible for the consequences of any violations they commit.
3. Individuals conducting business on behalf of PFS must do so for the benefit of PFS. Where a potential for personal gain exists, this potential conflict of interest must be reported immediately, and be carefully evaluated before any financial transactions are allowed to occur.

INTERNAL ACCOUNTING CONTROLS

Internal accounting control is a series of policies and procedures designed to promote and protect sound management practices, both general and financial. Following internal control procedures will significantly increase the likelihood that: financial information is reliable, so that managers and the board can depend on accurate information to make programmatic and other decisions; assets and records of the organization are not stolen, misused, or accidentally destroyed; the organization's policies are followed; and, government regulations are met.

To develop an effective internal accounting control system, managers must be able to identify those areas where abuses are likely to occur. The following list provides an overview of areas and objectives in developing an effective internal accounting control system.

1. **Cash receipts**
   To ensure that all cash intended for the organization is received, promptly deposited, properly recorded, reconciled, and kept under adequate security.
2. **Cash disbursements**
   To ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded.
3. **Petty cash**
   To ensure that petty cash and other working funds are disbursed only for proper purposes, are adequately safeguarded, and properly recorded.
4. **Payroll**
   To ensure that payroll disbursements are made only upon proper

authorization to bona fide employees, that payroll disbursements are properly recorded and that all related legal requirements (such as payroll tax deposits) are complied with.

5. **Grants, gifts, and bequests**
   To ensure that all grants, gifts, and bequests are received, properly recorded, and that compliance with the terms of any related restrictions is adequately monitored.
6. **Fixed Assets**
   To ensure that fixed assets are acquired and disposed of only upon proper authorization, are adequately safeguarded, and properly recorded.
   Additional internal controls are also required to ensure proper recording of donated materials, fundraising pledges and other revenues; accurate, timely financial reports and information returns; and compliance with other governmental regulations.

DELEGATION OF AUTHORITY

The ***Finance Manager*** under the guidance of Executive Director and the Deputy Director of Administrative Operations is responsible for and oversight of financial policies, the business practices and financial systems for the Executive Director.

The Executive Director shall be responsible for developing an accountability structure that adheres to the following principles:

1. Accountability cannot be delegated.
2. A person cannot delegate greater responsibility than he or she has.
3. Tasks shall only be delegated to people who are qualified to perform them.

   A qualified person must:

   a. be actively involved in the tasks being performed;
   b. have the appropriate knowledge and technical skills to perform those tasks, including knowledge of relevant regulations and policies; and
   c. have the authority to carry out the tasks.

4. A person delegating tasks is responsible for ensuring those tasks are being properly performed.

SEPARATION OF DUTIES

Executive Director is responsible for assuring that financial administrative duties indicate clear lines of authority and responsibility. These duties are to be segregated so that one individual's work routinely serves as a compensating check on another's work. No one individual should have complete control over a financial transaction. Standards for separation of duties shall be implemented to the maximum degree possible. When full separation of duties is considered not practical or feasible, (i.e. due to limited departmental staff) the variance from the standard and appropriate compensating controls must be documented in writing and approved by the PFS Executive Director.

Clear lines of authority and responsibility must be established in order to segregate, where practical, the various steps of a transaction. An expenditure transaction consists of initiation of the purchase, receipt of goods, preparation of the payment voucher, authorization of the voucher, month-end reporting and reconciling. A revenue transaction consists of invoicing (if charged), collection and receipting of the funds, depositing the funds, month-end reporting and reconciling.

DIVISION OF RESPONSIBILITIES

The following is a list of personnel who have fiscal and accounting responsibilities:

Board of Directors

1. Reviews and approves the annual budget
2. Reviews annual and periodic financial statements and information
3. Reviews Executive Director's compensation annually and establishes the salary
4. The PFS Treasurer of the board will be an authorized signer on the bank accounts along with the CEO and the PFS Board Secretary
5. Approves all contracts over $25,000. income annually
6. Reviews and approves all non-budgeted expenditures over $10,000.
7. Delegates two board members to work with the CEO and the Deputy Director of Administration to review and advise the finance department on internal controls and accounting policies and procedures
8. Upon the recommendation of the CEO and the Board Treasurer, chooses and contracts with a CPA firm to complete an annual audit.

Executive Director/Chief Executive Officer

1. Reviews and approves all financial reports including cash flow projections
2. Sees that an appropriate budget is developed annually with the assistance of the Deputy Director of Administration and the Finance Department Manager.
3. Reviews and signs all issued checks and/or approves check signing procedures
4. Reviews and approves all contracts under $25,000 annually with notification to the PFS board.
5. Reviews and approves all grant submissions
6. Approves inter-account bank transfers
7. Is on-site signatory for all bank accounts
8. Reviews all incoming and outgoing invoices

9. Reviews all bank statements for any irregularities, and reviews completed monthly bank reconciliations
10. Oversees the adherence to all internal controls

<u>Deputy Director of Administrative Operations</u>

1. Monitors and oversees the work of the Finance Department Manager who tracts all program expenditures
2. Through the Finance Department Manager, monitors program budgets
3. Reviews all payrolls and is responsible for all personnel files
4. Reviews all reimbursements and fund requests
5. Processes all inter-account bank transfers as approved by the CEO
6. Assists Executive Director with the development of annual and program budgets
7. Receives and opens all incoming accounting department mail including bank statements
8. Monitors and manages all expenses to ensure most effective use of assets
9. Oversees expense allocations
10. Assists the CEO in reviewing, revising, and maintaining internal accounting controls and procedures
11. Ensures that the Finance Manager initiates donor thank you letter acknowledgements
12. Along with the CEO, and the Board Treasurer reviews all financial reports

<u>Finance Manager (and department staff)</u>

1. Overall responsibility for data entry into accounting system and integrity of accounting system data
2. Processes invoices and prepares checks for signature
3. Makes bank deposits
4. Processes payroll
5. Maintains general ledger
6. Prepares monthly, quarterly and year-end financial reports
7. Reconciles all bank accounts
8. Mails vendor checks
9. Manages Accounts Receivable

Roles

1. **Approver** (Accounting function). The person who reviews the transaction for

accuracy, validity, appropriateness, and proper authorization. The approver determines if a transaction should continue to be executed. For some types of transactions, there may be more than one approver. *Currently the Executive Director serves in this role.*

2. Authorizer (Authorization of transaction function). The person responsible for authorizing a transaction, such as a check request, purchase order, credit card transaction, journal voucher or payroll adjustment. *Currently the Executive Director serves in this role.*

3. Cashier (Custody of asset function). The person who receives cash or check payments on behalf of PFS from external parties. *Currently the Deputy Director of Administration and the Finance Manager serves in this role.*

4. Check Handler (Custody of asset function). The person who prepares and handles a check to be disbursed to a vendor. *Currently the Finance Manager serves in this role.*

5. Deposit Preparer/Reviewer (Accounting function). The person who consolidates and reviews cash receipts and prepares the deposit to the bank. This person does not directly collect cash and checks from external parties. *Currently the Executive Director's Assistant is serving in this role.*

6. Financial Report and Analysis Preparer (Record keeping function). The person who prepares financial reports and analysis for review by management or use by staff. *The Finance Manager serves in this role.*

7. Imputer (Accounting function). The person responsible for entering a transaction into the PFS Financial System. *Currently the Accounting Department Clerk serves in this role.*

8. Ledger Reviewer or Reconciler (Accounting function). The person who reviews and reconciles the general ledger every month to identify errors or discrepancies, and either resolves them or brings them to the attention of superiors. *Currently the Finance Manage serves in this role.*

SIGNATURE AUTHORITY FINANCIAL STEWARDSHIP

PFS Board formally delegates signature responsibility to provide a method to control who may approve financial transactions and to meet PFS's financial stewardship responsibilities. PFS employees who have been delegated signature authority should understand PFS's financial stewardship philosophy, applicable policies, regulations, rules and laws.

Financial stewardship is defined as the responsibility for managing PFS resources wisely and executing these responsibilities with integrity and ethical conduct. These resources include time, money, people and property.

Stewardship responsibilities encompass total oversight of the resources assigned to each employee as well as those resources available for use. Financial stewardship responsibilities include:

1. Spending money wisely and monitoring expenditures as if they were your own.

2. Purchase of goods and services wisely.
3. Assisting others in their financial stewardship efforts.
4. Being accountable for your actions, equipment, funding and time.
5. Encouraging others to be good stewards of their resources.
6. **Requiring dual signature for live checks.**

CHART OF ACCOUNTS AND GENERAL LEDGER

Pathway Family Services has designated a Chart of Accounts specific to its operational needs and the needs of its financial statements. The Chart of Accounts is structured so that financial statements can be shown by natural classification (expense type) as well as by functional classification (program vs. administration). The Finance Department Manager is responsible for maintaining the Chart of Accounts and revising as authorized by the CEO.

The general ledger is automated and maintained using our accounting software. All input and balancing is the responsibility of the Finance Department staff with final approval by the CEO or his designee.

The CEO or his designee and the PFS board treasurer will review the general ledger on a monthly basis for any unusual transactions.

CASH RECEIPTS AND CONTROL OF REVENUE

The *Deputy Director of Administrative Operations and the Finance Department Manager* is committed to the responsibility of handling cash and checks as well as other revenue collection as a part of doing business.

Cash receipts generally arise from:
1. Contracts
2. Direct donor contributions
3. Fundraising activities

The principal steps in the cash receipts process are:

The designated administrative personnel obtains the incoming mail from the post office box and forwards it unopened to the Deputy Director of Administration. The Deputy Director of Administration or his designee opens, date stamps, and distributes the mail. The Finance Manager enters all checks into a data base, stamps all checks “for deposit only,” and makes a copy of each check. The checks are kept in a locked cabinet until processed and deposited.

Weekly (or more often if necessary), the Deputy Director of Administration submits the following to the Finance Manager for processing: the endorsed checks, the deposit log book, and the correct account allocation for each deposit. The Finance Manager processes the deposit and takes it to the bank for deposit or utilizes a software and secure online deposit service provided by the bank. A copy of the deposit slip is attached to the deposit. The deposits are put in a file to attach to the bank statement. **Once deposited, deposit slips are confirmed to match receipt.**

It is very unusual for Pathway to receive cash for deposit. However, if it occurs, all cash received will be counted, verified, and signed off by the Deputy Director of Administrative Operations and another available staff member. The cash will immediately be posted using the appropriate allocation. A receipt will be given to the paying party and a copy kept for internal purposes. The cash will be kept in a locked, secure location and deposited within 24 business hours.

CASH DISBURSEMENT & DISBURSEMENT ALLOCATIONS

Cash disbursements are generally made for:

1. Payments to vendors for goods and services
2. Payroll
3. Taxes/license fees
4. Property payments
5. Utilities
6. Insurances- health, property, liability, etc.
7. Staff training and development
8. Vehicle operations/mileage reimbursement
9. Resource parent training
10. Memberships and subscriptions
11. Meeting expenses
12. Travel expenses
13. Employee reimbursements
14. Resource Parent reimbursement and expenses
15. Marketing/promotional materials

Checks are processed weekly. Invoices submitted to the Finance Manager by Wednesday will be processed and paid by Friday of the same week. Checks can be prepared manually within one day, but this should be limited to emergency situations.

Requests for cash disbursements are submitted to Accounting in two ways:

1. Original invoice
2. Employee or resource parent expense reimbursement request

All invoices must have the account code written on them and approved by the CEO or his designee prior to being submitted to accounting.

Every employee reimbursement request must be documented on the approved form with travel authorization, receipts, nature of business, program allocation, and funding source (if applicable) before approving for reimbursement as follows:

Lodging - an itemized receipt from the hotel detailing all charges, the person(s) for whom the lodging was provided, and the specific business purpose.

Meals and Entertainment - a receipt must be provided showing the cost of food, beverage, and gratuities, including the names of every person for whom food or beverage was provided, and the specific business purpose.

Other Expenditures - a receipt from the vendor detailing all goods or services purchased and the specific business purpose.

The CEO or his designee reviews all requests for payment and:

1. Verifies expenditure and amount
2. Approves for payment if in accordance with budget
3. Provides or verifies appropriate allocation information
4. Provides date of payment taking into account cash flow projections
5. Submits to the Finance Manager for processing

The Finance Department Manager/staff processes all payments and:

1. Immediately enters them into the Accounts Payable module
2. Prints checks according to allocation and payment date provided by the CEO or his designee
3. Submits checks, with attached backup documentation, to Executive Director for approval and signature. All checks require a second signature from an authorized board or staff member; checks in excess of $10,000 that are not 'budget items' or have received prior approval by the board must be authorized by the Board of Directors
4. Stamps invoice "paid"
5. Mails checks and appropriate backup documentation
6. Files all backup documentation in the appropriate file

Expense Allocations

Most non-salary expenses that benefit more than one cost center (administration and program) are spread across centers using a shared cost method. Under this method, the organization determines the percentage of shared costs they should bear. This is done on a monthly basis by the Finance Department Manager. Occupancy expenses may be split between departments based on the percentage of square footage that is used by each department.

EMPLOYEE-VENDOR RELATIONSHIPS

PFS prohibits an employee, staff, managers, or board officials from making or participating in the making of a decision without the Executive Director’s consent if there exists a financial conflict of interest. It is the policy of PFS to separate an employee's PFS and private interests, and to safeguard PFS and its employees against charges of favoritism in acquisition of goods and services. This policy describes restrictions on (A) the purchase of goods and services involving participation in purchasing decisions by employees.

A. **Participation In Purchasing Decision:** No employee of PFS shall make, participate in, or attempt to influence any decision if the employee knows or has reason to know that he/she has a financial interest in the outcome of that decision.

BANK ACCOUNT(S)

The PFS Executive Director shall authorize, in consultation with *PFS’s Board of Directors, Board Treasurer and Deputy Director of Administration*, the Finance Manager to select the appropriate banking, Savings and Loans Institutions, and/or money market accounts in order to conduct normal business operations and to be the depository of funds for the corporation.

A. Any or all banking, savings and loan institutions, and money market accounts which are now or may be selected by the PFS Executive Director to act as a designated depository for the funds of this corporation and be it hereby requested, authorized and directed to honor all checks, drafts, or other orders for the payment of money drawn in this corporation’s name on it’s checking and savings accounts including those drawn to specific individuals whose names appear thereon as signer, or signers thereof when bearing or purporting to bear printed signatures.

B. Designated signatures reflected below are authorized as corporate officers to withdraw funds. A signature from among the following officers is required:

1. Executive Director, PFS
2. *Board Treasurer or Board Secretary*

C. Two signatures, from the above list are required for the payment of funds from Pathway's checking account.

D. CHECK STOCK: PFS check stocks are maintained in PFS Accounting. The check stocks are secured and controlled behind a key controlled office within a locking container. When stock is low, the PFS *Finance Manager* will order new supplies. Upon receipt, the PFS Finance Manager verifies the quantity and the accuracy of the check print.

E. STOP PAYMENTS: Stop payments may occasionally be requested. To implement, the PFS *Finance Manager* notifies bank to place stop payment.

The bank will assess a per check stop payment fee.

F. VOID CHECKS: Checks are voided for a variety of reasons such as stale dated, wrong amount, etc. Original checks must be returned to the PFS *Finance Manager* along with a request to void the check. A request to reissue the check can also be made at this time.

H. LOST CHECKS: Lost checks should be immediately reported to the PFS *Finance Manager*. The Finance Manager will record pertinent information and immediately place stop payment on the checks. Generally, approximately one week will elapse before replacement check is issued to allow for the possibility of late mail delivery of the original check.

I. UNCLAIMED CHECKS: After ninety (90) days from issuance, unclaimed checks may be cancelled. Every effort should be made to contact payees. However, should these efforts be unsuccessful, the PFS *Finance Manager* will cancel said check and place notation in the payees vendor file for future reference. Should the payee eventually claim the check, a check requisition must be completed and circumstances of the reclamation must be provided.

It is the intent that this policy shall permit and allow adjustments to the wording of this policy to incorporate or accommodate adjustments in content or language as may from time to time be required by the selected banking or savings and loan companies to reflect adjustment forms and formats then adopted by the banking industry.

BANK ACCOUNT RECONCILIATIONS

1. All bank statements are provided to the Executive Director by the Deputy Director of Administrative Operations. The Executive Director reviews the statements for unusual balances and/or transactions.
2. A copy of the bank statements is provided to the Finance Manager for timely reconciliation as follows: a comparison of dates and amounts of deposits as shown in the accounting system and on the statement, a comparison of inter-account transfers, an investigation of any rejected items, a comparison of cleared checks with the accounting record including amount, payee, and sequential check numbers.
3. The Finance Manager will verify that voided checks, if returned, are appropriately defaced and filed.
4. The Finance Manager will investigate any checks that are outstanding over three months, since they are 'void' according to our agreement with the banking institution.

5. The Finance Manager will attach the completed bank reconciliation to the applicable bank statement, along with all documentation.
6. The reconciliation report will be reviewed, approved, dated, and initialed by the Executive Director.

INTER-ACCOUNT BANK TRANSFERS

The Deputy Director of Administration and the Finance Manager monitors the balances in the bank accounts to determine when there is a shortage or excess in the checking Account. The Operations Manager recommends to the Executive Director when a transfer should be made to maximize the potential for earning interest. The Finance Manager is directed in writing when to make a transfer and in what amount. A copy of the transfer is Given to the Deputy Director of Administrative Operation.

CORPORATE RESERVES

This policy provides criteria for the Executive Director and Board of Pathway Family Services, Inc. (PFS) and staff of the Agency to measure the adequacy of the PFS Corporate Reserves, fee rates and to guide in allocation from the Corporate Reserves for the operations, repair, replacement, and facility modification and other projects.

A. Sources of Local Funds. Pathway Family Services, Inc. receives its operating funds from the following sources:

1. Government Contracts
2. Grants, Donations

B. Financial Standards. Annually, through the budget process, the PFS Board of Directors reviews the fiscal viability of the organization to include:

1. The evaluation of the need for reserves in the following areas:

a. Working Capital Reserves: reserves needed to administer daily operations.
b. Emergency Operations: An emergency reserve against critical operating budget deficiency such as unanticipated losses of revenue, economic hardships or immediate repair/replacement of structures etc. due to unforeseen circumstances.
c. Equipment Replacement Reserves: Enable the proper and timely replacement of damaged and/or outdated equipment, furnishings and facilities.

2. Working Capital Reserves are to be held at an average level of 2 to 3 months budgeted operational expenditures. This amount will be calculated

and addressed during the budget process and briefed to the Board of Directors for the new budget year.

3. The Executive Director will advise the board on reserves funding levels or needs prior to the beginning of a new budget year.

INVESTMENTS

The position of Pathway Family Services, Inc. (PFS) in regards to the investing of funds shall be in a manner consistent with the guidelines below.

All investments of PFS funds shall be in a manner which provides:

1. security of funds
2. necessary accessibility for fund usage
3. optimum return on investment.

It is PFS Board's intent that PFS funds will be invested in a manner that is consistent with present and/or future State of California policies and/or laws regarding socially responsible investment practices for the State.

ACCOUNTING FOR ASSETS

The policy on accounting for assets establishes the fundamental guidelines and GAAP practices for properly accounting and reporting assets on PFS's Balance Sheet. An asset is an element of the financial statements constituting resources or claims thereto at a moment in time, as of a certain date. More specifically, the Financial Accounting Standards Board, defines assets as probable future economic benefits obtained or controlled by PFS because of past transactions or events. (For example, an investment in stock, receivable for the sale of goods or services.) In simple terms, assets represent items of value that PFS owns or controls. They have the ability or potential to provide future benefits to PFS.

An asset has four primary characteristics:

- It embodies a probable future benefit that involves capacity, singularly or in combination with other assets, to contribute directly or indirectly to future net cash flows to PFS.
- PFS can obtain the benefit and control others' access to it.
- The transaction or event giving rise to PFS's right to control of the asset has already occurred.
- Assets are recorded on PFS's Balance Sheet using accrual basis of accounting.

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

The accrual basis of accounting focuses on inflows of assets from operations (revenues) and uses of assets in operations (expenses), regardless of whether those inflows and outflows currently produce or use cash.

Liquidity means the availability of cash or ability to convert into cash. Assets are also further classified into current and non-current categories. These distinctions are implicit in the natural descending order of the assets on the Balance Sheet. For reporting purpose, these category distinctions do not need to be explicitly stated on the Balance Sheet.

Valuation accounts are used to change the carrying amount of an asset and are considered an essential part of the asset. The valuation account accumulates amounts that are either added to or, in most cases, subtracted from the original asset balance. The valuation accounts are also referred to as contra asset accounts.

Examples of valuation accounts include:

- Allowance for doubtful accounts (contra valuation account to Accounts Receivable)
- Accumulated depreciation (contra valuation account to Facilities & Equipment)
- Unrealized gain or loss on investments (contra valuation account to Long-term investments)

Accounts Receivable

The variety of receivables generated by the activities of PFS results in numerous individual accounts. In order to effect early conversion of these receivables to cash and minimize losses, PFS must maintain a diligent program for managing receivables. The management function consists of invoicing accounts, effecting collection, and analyzing outstanding accounts (aging).

The PFS *Finance Department Manager* will be responsible for generating invoices for all PFS activities that are not on a on-going contractual basis.

1. Invoicing: When no established contract is in place, prompt invoicing for reimbursement of expenses or fees arising from services provided under various agreements is essential for effective management of receivables. Information must be maintained on the status of all uninvoiced accounts to insure that actions necessary for the preparation of the "Request to Invoice" form have been taken as required so that the invoice may be issued as expeditiously as possible.

2. Collection: Collection of receivables is primarily a responsibility of the PFS *Finance Department Manager*. Uncollected amounts not collected will be the responsibility of the *Finance Department Manager* through routine follow-up.

   a. Analysis. Adequate information concerning the age of outstanding invoices is essential for proper overall control of accounts receivable and related reserves for bad debts; therefore:

b. Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner.

c. Contract/Invoices must be collected as expeditiously as possible, but the cost of collection must not be allowed to exceed the expected revenue.

3. Provision for Bad Debts: In order that realized revenue will be reflected properly, bad debts must be regularly recognized in PFS accounts. PFS will establish and maintain a reserve for bad debts with annual charges against operating revenue.

ACCEPTANCE OF GIFTS

Pathway employees (PFS) shall only accept grants, contracts, bequests, trust or gifts, which are subject to conditions of and used for purposes consistent with the policies as set forth by Pathway Family Services. The Executive Director, may accept gifts, funds, or property on behalf of PFS Board of Directors.

Gifts may only be accepted providing that their acceptance and future use provides no expectation of unreasonable use, cost, or conflict in the State laws or PFS bylaws, policies, and procedures. Such possible costs or conflict will necessarily be determined prior to acceptance of any gift. In no case will any gift be accepted which will accrue benefit to any individual employee or Board member of PFS.

The Executive Director will advise and receive approval from PFS Board of Directors regarding gifts. The Executive Director then on behalf of the Board may accept any gift, donation or bequest.

CASH FUNDS: ESTABLISHING AND ADMINISTRATION

There is only one type of operating cash fund: Petty Cash. Petty Cash Funds may be used to make small purchases which have been approved in advance by the Executive Director or his designee. This policy outlines:

(1) How Petty Cash is approved, as well as the administrative responsibilities of those entrusted with cash funds, including
(2) use and operation of a Petty Cash Fund,
(3) increasing a fund,
(4) fund security,
(5) reconciling the account,
(6) cash fund audits,
(7) what to do in the event of theft, and
(8) closing a fund.

Guidelines and Procedures

A. **Limits.** Petty Cash will be administered using the following dollar limits:

Petty cash is for reimbursement or to make small purchases. Dollar limits of Petty Cash funds are: Corporate Office $300.00, all other program/satellite offices $100.00. if deemed necessary on a case by case basis.

B. Areas of Responsibility

The *Finance Department Manager* is responsible for approval and monitoring the use of Petty Cash. The custodian or specific employee to whom the Petty Cash is entrusted is responsible for safeguarding the cash. The Executive Director or designee who requests establishment of the fund is responsible for ensuring that the custodian manages the fund in accordance with established policies and procedures.

C. Operating Cash Fund Accounts Establishing a Fund

1. To establish a fund, a Request for Establishment of a Petty Cash Fund should be made to the Executive Director.
2. If the request is approved the *Finance Department Clerk* will enter the transaction into the financial information system in order to generate a check payable to the new custodian.
3. Petty Cash Funds will be maintained in the form of a cash fund. No revenues or donations may be deposited to such an account.

D. Use and Operation of Petty Cash Fund

1. Purpose: The purpose of a Petty Cash Fund is to provide for occasional purchases of low value goods and services which cannot be accommodated through other purchasing procedures: Petty cash may not be used for:
    - payroll payments
    - services of an independent contractor
    - inventorial equipment
    - restricted goods and services such as: firearms, explosives, ethyl alcohol, controlled substances, hazardous materials, unapproved caterers, leases and rentals of vehicles and equipment
    - entertainment expense
    - liquor
    - parking/driving citations
    - other personal obligations

2. Documentation: All expenditures from the Petty Cash Fund must be documented by a receipt showing the date, name of vendor, item(s) purchased, unit price, total cost, positive evidence that payment was made (i.e., cash register receipt or manual receipt marked “paid”), and the signature of the purchaser indicating receipt of goods or services. These receipts should be retained with the fund until they are submitted for reimbursement.

3. Advances: In cases where it would create a hardship for the

purchaser to advance personal funds for the initial purchase, the custodian may issue a cash advance to the purchaser, who must complete and sign a Petty Cash Receipt. The receipt must include the nature and purpose of the proposed purchase and the estimated cost. The purchaser must sign the form, which will be retained by the custodian together with the cash fund. The purchaser must provide the custodian with an acceptable receipt for the purchase, together with any change remaining from the cash advance. The custodian will attach the receipt to the petty cash receipt and retain with other petty cash receipts for later reimbursement. No personal loans may be made from a cash fund.

4. Reimbursement of Fund: The fund custodian will request reimbursements as needed. A Petty Cash Fund may be reimbursed as often as necessary, but it should be reimbursed at least monthly if cumulative expenditures exceeds 50% of the total Petty Cash allowed and it must always be reimbursed at fiscal year end. To obtain reimbursement, the originating custodian should submit a PFS Check Request form, with all receipts attached, to the Finance Department Clerk for verification and approval. The request must be signed by the petty cash custodian and their supervisor as payee.

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Fund Security

Cash funds are particularly susceptible to theft, and it is the personal responsibility of each fund custodian to take all reasonable precautions to safeguard the cash under his/her care. In particular, the following procedures should be followed:

1. Each fund must be kept intact and not commingled with other funds.
2. When not in use, the fund must be kept in a locked compartment. If possible, the fund should be moved to a more secure, less accessible location at night and on weekends.

Reconciling the Account

A report verifying the balance of the fund must be submitted quarterly to the Finance Department Clerk.

1. Custodians of Petty Cash Funds will reconcile the Petty Cash Fund to verify that their total cash, plus receipts, plus any outstanding reimbursements requested equals the total amount of the fund.

In the Event of Theft

In the event of theft, the fund custodian should take the following steps:

1. Notify the Executive Director and the PFS *<u>Finance Department</u>*

Manager immediately.

Closing a Fund

1. If a Petty Cash Fund has been set up to accommodate the needs of a special event, such as a conference or festival, the fund should be closed as soon as the event is over.

2. In all cases, if/when the need for a Petty Cash Fund no longer exists, responsibility for it should be promptly terminated as follows:
· All cash should be returned to the *Finance Department Clerk* along with all receipts pertaining to the Petty Cash Fund.

CONTRACT AND GRANT ACCOUNTING

The PFS *Finance Department Manager* is responsible for the accounting on all outside grants and contracts for PFS. For each grant and contract, this office prepares billings and all financial reports per OMB Circular A-133 and California Rate and Audits Bureau. The *Finance Department Manager* also helps prepare grant budget requests and tracks/monitors direct and indirect grant and contract expenditures.

Establish a separate fund number for each project and maintain the official ledger of expenditures for the agreement(s).

Monitor payroll and non-payroll expenditure transfers for compliance with PFS and sponsor policies.

Prepare and submit expenditure reports to sponsors and programs. Coordinate the financial closeout of contracts and grants.

Coordinate responses to financial audit reports and/or recommendations of expenditure disallowances with sponsor, Program Directors and PFS auditors.

ACCOUNTING FOR EXPENSES

The Accounting for Expenses policy defines and classifies types of expenses and expense credits at PFS. Expenses consist of outflows or charges relating to rendering services or carrying out other activities that constitute PFS's major operations.

Expenses measure the outflow of assets (cash) or increases in liabilities (a payable) relating to rendering services or carrying out PFS's operating activities. The Financial Accounting Standards Board, SFAS No. 117, "Financial Statements for Not-for-Profits," specifies that the "Statement of Activities" or the "Notes to Financial Statements" should provide information about expenses reported by functional classifications. Such as, major classes of programs, services, and supporting activities.

1. **Operating Expenses:** Operating expenses should be reasonable in nature and amount. In determining the reasonableness of a given cost, consideration shall be given the following:

Whether the cost is of a type generally recognized as ordinary and necessary for the operation of PFS. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, federal and state laws and regulations.

Whether the individuals concerned acted with the prudence in the circumstances considering their responsibilities to PFS, its members, employees and clients, the public at large and any government agency. Whether there is significant deviation from the established practices of PFS.

ACCOUNTS PAYABLE/PURCHASING POLICIES

Payment for goods and services are generally initiated using one of the following methods: Check Request, PFS Credit Card (see PFS Credit Card Policy).

Guidelines and Procedures

1. **Purchasing.** Accounts Payable processes authorized requests for payment of invoices and reimbursements.

2. **Requests for Proposal/Bid (RFP).**
   a. Purchases of $10,000 or more must first secure three (3) telephone or written proposals or bids. The bids need to contain the following for each vendor: the company name, the date of contact, address, telephone number, the name of the person providing the quote, the service/product description, and total price including tax and shipment. Any other information pertinent to final vendor selection should also be stated.

3. **Accounting and Reporting.** Payments and any adjustment to payments will result in an entry to the accounting system. Errors made in the payment process will be handled by Accounts Payable.

FIXED ASSETS

This policy establishes guidelines for acquiring, depositing and maintaining control of capital assets. Proper control procedures will be followed for all capital asset acquisitions, transfers and depositions in order to provide internal control of capital equipment and to assist in reporting. This policy applies to all capital equipment with value of $1,000.00 or more with a useful life greater than one **year**.

Guidelines and Procedure

1. Acquisitions:

a. *All purchases of assets will require the Executive Director's approval*. *Purchases of 10,000 or more will also require the approval of the Board of Directors unless already approved for current year budget.*

b. Any donated equipment will be reported to accounting if the item cost or has a value of $500 or more. A complete description of property, date manufactured or received, number of items, cost or estimated value statement that it was internally constructed or donated will be included in the report.

2. Dispositions

a. Capital assets may be sold or traded-in on new equipment. *Any assets sold will also require the Executive Director's approval and be reported to the PFS Board.*

b. Upon approval, the agency may advertise the property for sale or submit a list to the *Finance Department Manager* for sale and disposition.

c. With Board approval, assets can be gifted to another non-profit organization.

3. Equipment Inventory

The inventory will be coordinated by the *Finance Department Manager*, and includes providing inventory listing, pertinent forms, procedures and deadlines.

PROPERTY AND EQUIPMENT

Property and equipment includes items such as:

1. Office furniture and equipment
2. Computer hardware
3. Computer software
4. Leasehold improvements

It is the organization's policy to capitalize all items which have a unit cost greater than one thousand dollars ($1,000). Items purchased with a value or cost less than one thousand dollars ($1,000) will be expensed in the period purchased.

The depreciation period for capitalized assets is as follows:

Computer Hardware	36 months
Office Equipment	60 months
Office Furniture	60 months
Computer Software	36 months
Leasehold improvements	Length of lease

1. A Fixed Asset Log is maintained by the Finance Manager including date of purchase, asset description, purchase/donation information, cost/fair market value, donor/funding source, identification number, life of asset.
2. The Log will be reviewed by the Deputy Director of Administrative Operations.
3. Annually, a physical inspection and inventory will be taken of all fixed assets and reconciled to the general ledger balances.
4. The Deputy Director of Administrative Operations and the CEO shall be informed in writing of any change in status or condition of any property or equipment.
5. Depreciation is recorded at least annually. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Any impaired assets discovered during the inventory will be written down to their actual value.

PFS Sample Equipment Disposition Memo

DATE: <date>

TO: _Finance Manager_

FROM: <Supervisor>

SUBJ: Equipment Disposition

Please remove the follow item<s> from our property list:

Item:

Serial Number

Inventory Number

Equipment Condition: <junk, surplus, etc.)

Approved / Disapproved Date:

Comments:

____

Finance Manager

____

Executive Director/Designee

CREDIT CARDS

Corporate credit cards allow agency management (PFS) to effectively control, monitor small purchases, and reduce time and paperwork. PFS authorized cardholders may make walk-in purchases; place telephone orders; use online service; and receive and confirm purchase not to exceed $2,000 (including tax and shipping) unless pre-approved by the CEO; thus, reducing the labor intensive procurement process for small dollar purchases.

Credit cards are issued to the following agency personnel:

1. *Executive Director (20,000 limit)*
2. *Deputy Director of Administration (10,000. limit)*
3. *Finance Department Manager/other Leadership members ($1,000. limit)*
4. *Supervisors who manage satellite offices in locations other than the corporate office (1,000.) (for future development of offices)*

All credit card expense will be reviewed and approved monthly for payment by the Executive Director or his designee.

1. **Prohibited Credit Card Purchases**

   PFS corporate credit card should not be used to procure items such as:

   a. Cash Advances, Leases, and Maintenance Service
   b. Personal purchases of any kind
   c. Narcotics and other controlled substances
   d. Splitting of purchases to circumvent the dollar limitation

2. **Misuse of Credit Card**

   Cardholders are to observe strict compliance with the program policies and guidelines at all times. In the event of repeated abuses of PFS corporate credit card policies, the card will be revoked. Further, the employee will be subject to disciplinary action such as termination of employment and/or criminal prosecution.

   All staff members who are authorized to carry an organization credit card will be held personally responsible in the event that any charge is deemed personal or unauthorized. Unauthorized use of the credit card includes: personal expenditures of any kind; expenditures which have not been properly authorized; meals, entertainment, gifts, or other expenditures which are prohibited by budgets, laws, and regulations, and the entities from which Pathway receives funds.

Note: If there are excessive instances of lost receipts, the employee’s credit card may be revoked. Further, the employee will be subject to disciplinary action up to and including termination of employment.

3. **Responsibilities**

a. Cardholder: The cardholder is responsible for:
- Appropriate use of PFS Credit Card;
- Security of the PFS Credit Card;
- Compliance with PFS Procurement policies and procedures;
- Reviewing monthly credit card statement of account, attaching all receipts and forwarding to the Executive Director or his designee within three working days;
- Making arrangements in his/her absence to ensure paperwork is submitted to the *Executive Director or his designee in a timely manner.*

b. Approval by the Executive Director or his designee: The Executive Director or his designee is responsible for:
- Reviewing all charges;
- Ensuring all purchases are appropriate;
- Ensuring no prohibited items have been purchased;
- Ensuring all proper documentation is attached to monthly Credit Card Statement.
- Signing cardholder statements and forwarding them to PFS's *Finance Manager* within three working days.

4. Fiscal Year-End Accruals

PFS *Finance Department Manager* will handle Dec 31 accruals. To ensure a timely close of the General Ledger, Pathway may book accrual entries. Some accruals will be made as recurring entries.

Accruals to consider:

- Monthly interest earned on money market accounts, certificates of deposits, etc.
- Recurring expenses, including employee paid time off (PTO) accrual, prepaid corporate insurance, depreciation, etc.

CONFLICT OF INTEREST POLICY

This policy is, and will be in effect in order to define a procedure that will act as a safeguard against a conflict of interest that might occur at some future point in time between PFS's Executive Director, Program Directors, Board Members.

A. No Director, Officer, Board Member or Employee may accept gifts of any significant value or nature from current vendors or those seeking to do business with PFS. They will also avoid a conflict of interest in relations with vendors, contractors and consultants doing business with, or seeking to do business with *Pathway Family Services.*

B. No employee or member of *Pathway Family Services* will be allowed to use confidential information gained through their position for his/her personal gain.

TRAVEL POLICY

Authorization - PFS staff members must obtain written approval from the PFS Executive Director or his designee.

Guidelines and Procedures

1. **Travel Expenses** : All expenses must be reasonable and necessary. Any expenses that appear to be "excessive" will be reduced to an amount which is "reasonable" given the facts and circumstances of the situation. Expenditures for side trips and personal items shall not be authorized.
2. **Guidelines for maximum amounts:** As stated above all expenses must be “reasonable” and not “excessive.” Hotel charges will be reimbursed for the actual amount provided a receipt is submitted. Hotel lodging that cost more than $175.00 over night will need to be approved in advance by the Executive Director or his designee. Meals and incidentals require receipts with a maximum daily expense of **$73**. Expenses must be incurred in order for employee to be reimbursed.

   For travel which is the last **fractional** part of a period of travel of more than 24 hours, the authorized allowance for meals or lodging will be paid. If the travel extends past 9:00 a.m., a breakfast may be claimed ($15); if the travel extends past 2:00 p.m., a lunch may be claimed ($18); if the travel extends past 6:00 p.m., a dinner may be claimed ($28). If the travel extends overnight, lodging may be claimed for actual lodging expenses provided a receipt is submitted.
3. **Partial day travel has the following limitations:**

   a. No lodging is allowable unless pre-approved by Executive Director.

   b. Breakfast and dinner reimbursements are allowed only if the following applies:

      For breakfast if the travel begins before 8 a. m.
      For dinner if the travel extends past 6 p. m.

   c. Daily meal reimbursements are as follows:

      Breakfast $15.00
      Lunch $18.00
      Dinner $30.00
      Incidentals $10.00 include tips and toiletries.
      Total $73.00
      Parking Fees will be reimbursed at actual cost upon submission of receipt.
4. **Use of Personal Vehicle**. - The mileage reimbursement rate shall be at $0.48 cents per mile. This rate is adjusted periodically.
5. **Submission of claims.** If expenses have not been pre-paid by the agency or a credit card has not been made available for the traveler to use. Employees are required to submit expense claims for the authorized travel within 5 working days after their return from the event, seminar, conference, etc.

MERIT SALARY INCREASES

Pathway Family Services, Inc. may award merit salary increases, including merit raises and merit payments to employees that demonstrate outstanding job performance. All merit salary increases will be awarded in accordance with this policy. All proposed salary increases must be submitted within the amount allocated in the annual budget approved by the Board or by special Board action.

Two types of merit salary increases may be awarded.

Merit Raise – An employee may be granted a merit raise that is added to base salary with annual performance review recommendation.
Merit Payment (**Bonuses)–** An employee may be granted a lump sum merit payment that is not added to the employee's base salary; based upon specific performance at any point during the fiscal year. A merit payment in the amount that exceeds $500.00 must be approved by the Board.

Merit salary increases may be awarded to PFS employees based upon one or more of the following criteria.

a. An employee who demonstrates outstanding performance evidenced by an above average or excellent overall rating on a current performance evaluation may be recommended for a merit salary increase in accordance to the limitations on the approved annual budget. Final approval will be made by the Executive Director.
d. Merit raises, if granted, usually will be made at the employee's annual employment anniversary date.

Merit salary increases should be initiated by the immediate supervisor and approved by the PFS Executive Director or his designee.

PAYROLL PROCESSING

1. Timelogs are to be prepared by all staff on the approved form and submitted semi-monthly on the16th and 30th of the month. If the16th and/or 30th of the month fall on a weekend or holiday, the timelogs are to be submitted the day prior to the weekend or holiday. Exceptions to the submittal date may occur and will be communicated accordingly.
2. Timelogs are to be kept on a daily basis and completed in ink – unless prepared electronically.
3. Any corrections to logs are to be made by making a single line through the error and writing in the correction. Correction fluid and/or tape are not allowable.
4. Timelogs are to be signed and dated by the employee and the employee's supervisor for submission to the Finance Manager.
5. Any changes to the standing information of the payroll register from the prior period including addition of new employees, deletion of employees, or changes in base pay rate must be accompanied by an Employment Information Form and signed by the Executive Director before the change can be made.

6. The Finance Department staff will process payroll in a timely manner and record paid time off (PTO), holiday hours, and any other information deemed necessary to properly reflect time worked**. The proposed payroll is reviewed by the Executive Director or the DDOA, if the E.D. is not available to review before being submitted for disbursement**.
7. Paychecks will be processed by the Deputy Director of Administrative Operations and the Finance Manager on the 5th and 20th of each month. If the 5th and/or the 20th fall on a weekend or holiday the paychecks will be distributed the day before.
8. Employees may choose direct deposit to a designated bank account. Their paycheck is deposited directly into the designated account on the payroll date. The employee will receive a verification stub.
9. The Deputy Director of Administrative Operations and Finance Manager will review payroll expenditures and allocations monthly.
10. All quarterly federal and state payroll reports will be prepared and filed appropriately.
11. All W-2 statements are issued to employees prior to January 31st of the following year for the prior calendar year.

END OF MONTH AND FISCAL YEAR-END CLOSE

1. The CEO or his designee and the Finance Manager will review and sign off on all month- and year-end journal entries. They will be printed and filed for audit trail purposes.

2. At the end of each month and fiscal year end, the Finance Manager will review all balance sheet accounts including verification of the following balances: cash accounts match the bank reconciliations, fixed assets accounts reflect all purchases, write-downs and retirements, accounts receivable and payable accounts match outstanding amounts due and owed.

3. The income and expense accounts review will include reconciliation to amounts received and expended and verification that payroll expenses match the payroll reports including federal and state payroll tax filings.

4. Once the final monthly and fiscal year-end financial statements are run, reviewed, and approved by the Finance Manager and Executive Director, no more entries or adjustments will be made into that month or year’s ledgers.

5. At the end of the fiscal year, the Finance Manager or outside CPA will prepare the annual Return for Organization Exempt from Income Tax (IRS Form 990). The return will be presented to the CEO, the Board Finance Committee, and the Board Chair for their review and approval. The Operations Manager will then file the return with the Internal Revenue Service by the annual deadline.

6. All other appropriate government filings including those required by the state tax board and attorney general’s office will be completed and filed with the appropriate agency.

FINANCIAL REPORTS

The Finance Manager will prepare the monthly and annual financial reports for distribution to the CEO and to the Pathway board treasurer. The reports will include: balance sheet, statement of income and expenses, and any other requested reports.

Quarterly and annual financial reports will be submitted to the Board of Directors for review and approval.

FISCAL POLICY STATEMENT

1. All cash accounts (except petty cash) owned by Pathway Family Services will be held in financial institutions which are insured by the FDIC. No bank account will carry a balance over the FDIC insured amount, unless it is insured.

2. All capital expenditures which exceed one thousand dollars ($1,000) will be capitalized.

3. Employee or public personal checks will not be cashed through the petty cash fund.

4. No salary advances will be made under any circumstances.

5. No travel cash advances will be made except under special conditions and pre-approved by the Executive Director.

6. Reimbursements will be paid upon complete expense reporting and approval using the official Pathway form.

7. Any donated item with a value exceeding $50 will be recorded and a letter acknowledging the donation will be sent to the donor within 30 days of the receipt of the donation.

8. The Executive Director, the Deputy Director of Administrative Operations and one designated Board are the signatories on Pathway's bank accounts. All Disbursements require a second signature by an authorized board or staff member. Checks over $10,000.00 require approval from the Board of Directors unless the purchase has been approved in the annual budget.

9. Bank statements will be reconciled monthly. All bank statements will be given unopened to the Executive Director for review.

10. Correction fluid and/or tape will never be used in preparing timesheets or any accounting documents.

11. Accounting and personnel records will be kept in locked file cabinets in the finance office and only parties with financial and/or HR responsibility will have access to the keys.