ATTACHMENT F

FINANCIAL OPERATIONS POLICY #70-0001

Kings County Area Public Transit Agency	Title: **Financial Operations**	Document #: 70-0001
	Approved By: KCAPTA Board	Date Approved: 05/27/2020
	Effective Date: January 24, 2019	Type: Financial Management

FINANCIAL OPERATIONS

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Financial Operations

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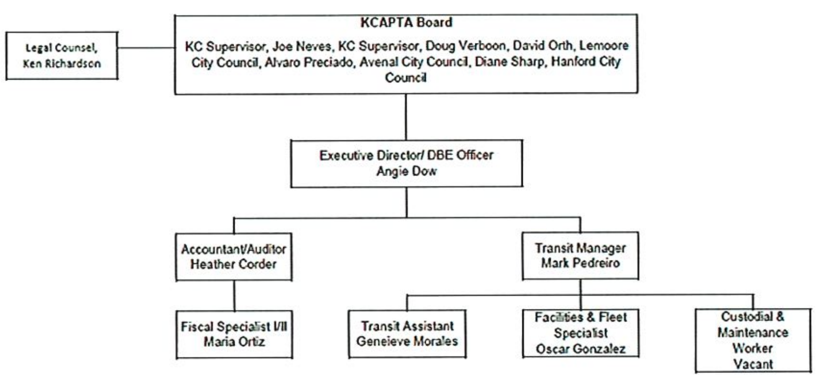
1. Levels of Authority

The Executive Director, with assistance from the Transit Manager and staff, is responsible for preparing financial reports for appropriate employees, officials, board members, and outside agencies, subject to final review and approval by the Executive Director. The organizational chart as it relates to financial activities, is shown below:

KINGS COUNTY AREA PUBLIC TRANSIT AGENCY



Monthly financial reports are produced for the Executive Director and the Accountant/Auditor or designee for the purpose of reviewing the accuracy and propriety of revenue and expense transactions made in accounts for which they have responsibility. These reports show monthly and year-to-date revenues, expenditures, and budget balances by account. Additionally, the reports present the original annual budget and any revised budget line items for these accounts.

The Executive Director, with the assistance of the Kings County Finance Department, Accountant/Auditor, Fiscal Specialist, and Transit Manager oversee the following activities:

1.1 Budget Management

Ensure the comparison of actual financial results with the estimated expenditure and revenues for the given budget period and take corrective action as necessary.

1.2 Risk Management

Ensure the identification, assessment, and prioritization of risks (the effect of uncertainty on objectives, whether positive or negative), followed by the coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of adverse events, or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life cycles), legal liabilities, credit risk, accidents, natural causes and disasters, as well as deliberate attack from an adversary, or events of uncertain or unpredictable root cause.

1.3 Cash Management and Investments

Ensure the investment of funds and the administration of banking and cash management services, with the goal of maximizing investment earnings within levels of prudence established by the organization and in line with Federal regulations. This also includes ensuring the highest quality of service at competitive costs.

1.4 Accounts Payable

Ensure the organization is meeting its obligation to pay off short-term debts, while adhering to the rules set by Kings County Finance Department and KCAPTA for monitoring vendors, processing invoices, and making payments for authorized transactions.

1.5 Fixed Assets

Ensure oversight of the accounting process to track fixed assets for financial accounting, preventive maintenance, and theft deterrence.

1.6 Contract and Grant Accounting

Ensure that policies and procedures, technical resources and staff, organizational assignment of responsibilities, individual position descriptions, matching requirements, and methods to measure performance are adequate to meet Federal, State, and Local regulations and guidelines, and ensure adequate grants management for proper use and safeguarding of grant funds and assets acquired with grant funds.

1.7 Payroll

Review payroll before transmitting direct deposit information to the bank and distributing direct deposit reports to employees and sign the payroll journal to indicate approval of the payroll.

1.8 Taxation and Special Funds Reporting

Ensure compliance with all obligations for tax and information returns filed with federal, state, and local jurisdictions, and be responsible for identifying all filing requirements and assuring that KCAPTA is in compliance with all such requirements.

1.9 Financial Reporting/General Accounting/Auditing

Ensure timely and accurate preparation of financial documents for reporting and oversee the Finance and Accounting functions. Includes being the key point of contact for annual audits.

2. Responsibilities of Financial Operations

In accordance with FTA C 5010.1D, Chapter VI, it is the policy of KCAPTA to maintain a financial management system that provides for a minimum of the following:

- Accurate, current, and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements.
- Records that identify the source and application of funds for federally sponsored activities are adequate. These records shall be supported by source documents and shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.
- Effective control over and accountability for all funds, property, and other assets. KCAPTA shall adequately safeguard all such assets and ensure they are used solely for authorized purposes.
- Comparison of outlays with budget accounts for each award. Whenever possible, financial information shall be related to performance and unit cost data.

The primary responsibilities of Financial Operations consist of maintaining and implementing the following:

2.1 Chart of Accounts

KCAPTA adheres to Kings County's accounting systems policies. The chart of accounts is the framework for the General Ledger system and the basis for Kings County's accounting system. Kings County's policy is to establish a chart of accounts that accumulates all financial transactions, and it must include fund/account/project codes for general Ledger activity. The chart of accounts consists of account titles and the account numbers assigned to them. KCAPTA's chart of accounts comprises five types of accounts: Assets, Liabilities, Equity, Revenues, and Expenses.

The chart of accounts is revised by Kings County's Assistant Director on an annual basis if needed, and all KCAPTA employees with account coding responsibilities will be issued the most current chart of accounts as it is revised.

KCAPTA's chart of accounts is monitored and controlled by the Kings County's Assistant Director and Accountant/Auditor or designee whose responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the Executive Director, who ensures that the chart of accounts is consistent with the organizational structure of KCAPTA and meets the agency's needs.

2.2 General Ledger

The General Ledger (GL) is defined as a group of accounts that supports the information shown in KCAPTA's financial statements. The GL is used to accumulate all financial transactions of KCAPTA, the impact of these transactions on each asset, liability, net asset, revenue, expense, and gain and loss, and is supported by subsidiary ledgers that provide details for certain accounts in the GL. The General Ledger is the foundation for accumulating data and generating reports.

2.3 Accurate Financial Estimates

KCAPTA uses numerous estimates in preparing interim and annual financial statements. Some of those estimates include:

1. Useful lives of property and equipment
2. Adequacy of receivables
3. Adequacy of payables
4. Fair market values of investments
5. Allocations of time/salaries

It is KCAPTA's policy that all such estimates shall be reassessed, reviewed, and approved by the Executive Director, in collaboration with the Accountant/Auditor, the Fiscal Specialist, and the Transit Manager, on an annual basis. Documentation shall be maintained supporting all key conclusions, bases, and other elements associated with each accounting estimate. All material estimates and changes in estimates from one year to the next shall be disclosed to KCAPTA's Board of Directors.

2.4 An Iterative Budgeting Process

It is the policy of KCAPTA to request prior approval from federal awarding agencies for any of the following programs 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 need for additional Federal funding.
4. The transfer of budgeted amounts if needed to align with a scope change, if approval is required by the awarding agency.
5. The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with 2 CFR Parts 200.
6. Unless described in the application and funded in the approved awards, the sub-award, transfer or contract out of any work under an award (however, this provision does not apply to purchases of supplies, materials, equipment or general support services).

2.5 Journal Entries

All GL entries that do not originate from a subsidiary ledger shall be supported by journal vouchers or other documentation, which shall include a reasonable explanation of each such entry. Certain entries, called recurring journal entries, may occur in every accounting period, quarterly, or annually. These entries may include, but are not limited to, depreciation of fixed assets, accretion of discounts on promises to give, accruals of recurring expenses, and amortization of deferred revenue. Support for journal entries shall be in the form of a schedule associated with the underlying asset or liability account.

2.6 Cash and Investment Management

Kings County's Treasurer provides banking and investment services for KCAPTA. KCAPTA funds are deposited with the Treasurer and invested pursuant to the Kings County Investment Policy. The Kings County Treasurer pools cash from various governmental agencies for investment purposes. Interest received on the investment is prorated to individual agencies based on their average cash balances. The Pooled Investment Funds objective is to prudently invest to earn a reasonable return while awaiting application for governmental purposes. To meet this objective, each transaction shall seek to ensure that capital losses are avoided, the Pooled Investment Fund should remain sufficiently flexible to enable the County Director of Finance to meet all operating requirements which may be reasonably anticipated in any depositor's fund, avoid any transactions that might impair public confidence, and attain a market rate of return throughout budgetary and economic cycles.

The overall investment policy is to preserve and protect KCAPTA's assets, maintain liquid reserves to meet obligations arising from unanticipated activities, and earn an appropriate return on investments. With this policy understood, it is KCAPTA's goal to maximize investment earnings opportunities with appropriate considerations for safety, legality and yield.

2.7 Fixed Asset Management

It is the policy of KCAPTA to capitalize property and equipment with a unit cost of $5,000 or higher, in accordance with 2 CFR Parts 200. Items with a unit cost below this threshold shall be expensed in the year purchased. KCAPTA complies with FASB 93, of the Financial Accounting Standards Board in recognizing depreciation on long-lived assets and providing proper disclosure in the financial statements.

Both real and personal property are recorded at cost and depreciated on a straight-line basis. Estimated useful lives are established by asset class and range from 3 to 50 years.

Fixed assets include the following major classifications of assets:

1. Real Property
    a. Land
    b. Buildings
    c. Improvements other than buildings
2. Personal Property
    a. Vehicles
3. Furniture and Equipment
4. Construction in Progress

Additionally, the responsibilities of the Executive Director and the Auditor/Controller, or designee, include recording fixed assets and maintaining files for the above classification of assets.

2.8 Liability and Net Asset Accounts

The Executive Director and the Accountant/Auditor, or designee, establish a list of incurred expenses that need to be accrued at the end of a fiscal year. Expenses that shall be accrued by KCAPTA at the end of an accounting period include:

- Salaries and wages
- Interest on notes payable
- Payroll taxes
- Vacation/Sick pay
- Utilities and other accounts payable
- Fuel
- Professional Services

KCAPTA records a liability for deferred revenue (revenue received but not yet earned) in accordance with revenue recognition policies.

2.9 Grants and Contracts Administration

Contract and Grant Accounting policies are intended to provide the management framework to ensure that policies and procedures, technical resources and staff, organizational assignment of responsibilities, individual position descriptions, matching requirements, and methods used to ensure performance are adequate to meet Federal, State, and Local regulations and guidelines and ensure adequate grants management for proper use and safeguarding of grant funds and assets acquired with grant funds. The Executive Director and Accountant/Auditor or designee is responsible for all post-award accounting activities related to grant projects. This position also maintains accounting control to ensure that all budget, revenue, and expense transactions are properly recorded.

KCAPTA receives financial assistance from several agencies, including Federal, State, and Local governments and private sources. Types of funding support include grants, contracts, and cooperative agreements.

2.10 Close-Out of Federal Awards

KCAPTA shall follow the close-out procedures described in its Grant Management Manual. KCAPTA financial records on federal contracts and grants generally should be closed within 90 days, state contracts within 45 days of the stated termination date in the awarding document. Upon termination, no further expenses or encumbrances should be charged to the project account number. The Executive Director and Accountant/Auditor or designee will prepare the final fiscal report after determining that all appropriate expenditures have been charged against the account, including both direct and allowable indirect costs, if any. When cost sharing is included in the agreement, the Executive Director and the Accountant/Auditor, or designee, will determine whether KCAPTA has met cost-sharing requirements.

2.11 Cash Receipts and Disbursements

The Executive Director, the Accountant/Auditor, and the Fiscal Specialist monitor cash flow daily to ensure that payment obligations can be met. Cash transfers between funds are performed on an as-needed basis.

2.12 Accounts Payable

KCAPTA strives to maintain efficient business practices and good cost control. The account's payable function assists in accomplishing this goal through processing invoices and making payments for authorized transactions.

The recording of assets or expenses and the related liability is performed by an employee independent of ordering and receiving. The amounts recorded are based on the vendor invoice for the related goods or services. The vendor invoice is supported by an approved purchase order where necessary, and is reviewed and approved by the Fiscal Specialist, Accountant/Auditor and Executive Director prior to being processed for payment. Invoices and related general ledger account distribution account codes are reviewed prior to posting to the subsidiary system.

KCAPTA policy related to processing and payment of invoices requires that:

1. The vendor master file is maintained and updated on a regular basis;
2. Only original invoices will be accepted for payment to prevent duplicate payments;
3. Disbursements must be properly authorized and reviewed by Accountant/Auditor and the Executive Director;
4. Invoices be processed in a timely manner; and
5. Vendor credit terms and operating cash must be managed for maximum benefits.

2.13 Payroll and Employee Benefits

An official personnel file is established and maintained for each KCAPTA employee that includes payroll data, such as Form W-4, Employee Federal Withholding Certificate, approved salaries, and payroll account distribution. The employee personnel file shall also indicate whether the employee is exempt or non-exempt under the provisions of the Fair Labor Standards Act. KCAPTA operates on a bi-weekly payroll.

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

- Direct Deposit Forms
- Changes to W-4 form
- Employee benefit enrollment forms
- Supporting documentation for payroll deductions
- Changes in income tax withholding status
- Court-ordered payroll deductions
- Applications and resumes
- Changes in position
- Personnel evaluation forms
- Performance information
- Disciplinary information
- Leave and absentee forms on all employees

- Changes in income tax withholding status
- Terminations

Upon production of all payroll reports and each employee's direct deposit report, which shows total hours worked, gross pay, withholding amounts, retirement and benefit deductions, pay deferrals, and net pay the Executive Director or designee reviews payroll prior to direct deposit information being transmitted to the bank and direct deposit reports distributed to employees. The Executive Director should approve the payroll journal, indicating approval of the payroll.

2.14 Financial Statement Processing

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 budget to actual comparisons.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires KCAPTA to make estimates and assumptions about the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The basic financial statements of KCAPTA that are maintained on an organization-wide basis are:

Statement of Net Position – reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term.

- Assets are probable future economic benefits obtained or controlled by the organization because of past transactions or events. Assets of KCAPTA are classified as current assets and noncurrent 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.
- Noncurrent 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.
- 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 because of past transactions or events. Liabilities of KCAPTA 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 are 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 lease.
- Net assets are the difference between total assets and total liabilities.

Statement of Revenues, Expenses, and Changes in Net Position – presents revenues, gains, and other support, expenses, and changes in net assets of KCAPTA.

- Revenues are inflows or other enhancements of assets, or settlements of liabilities, from rendering services, delivering or producing goods, or other activities that constitute ongoing major or central operations.
- Expenses are outflows or other use up of assets or incurrences of liabilities from rendering services, delivering or producing goods, or carrying out other activities that constitute KCAPTA's ongoing major or central operations.

Statement of Cash Flows – reports the cash inflows and outflows of the organization in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities.

2.15 External Reporting of Financial Information

Annual financial statements and supporting schedules shall be reviewed and approved by the Executive Director prior to being issued. Once approved, a complete of set of annual financial statements shall be distributed at the next meeting of the Board of Directors.

2.16 Grant Financial Reporting

KCAPTA strives to provide management, staff, and funding sources with timely and accurate financial reports applicable to all grants and awards. KCAPTA will prepare and submit financial reports as specified by the financial reporting clause of each grant or contract award document. Preparation of these reports will be the responsibility of the Accountant/Auditor and Executive Director.

The following policies shall apply to the preparation and submission of billings to agencies under awards made to KCAPTA:

1. KCAPTA will periodically request reimbursement after expenditure has been incurred, unless an award specifies another method. In some cases, when Grant invoicing on large capital purchases will be made in advance of paying the vendor, but not prior to receiving the goods or services,

and the vendor must then be paid within three (3) days of KCAPTA receiving the funds from the granting agency.

2. Requests for reimbursement of grant expenditures will use the actual amounts posted to the general ledger as the source for all invoice amounts.
3. All financial reports required under each award will be prepared and filed on a timely basis by Accountant/Auditor and the Executive Director. To the extent the year-end audit results in adjustments to amounts previously reported to agencies, revised reports will be prepared and filed in accordance with the terms of each award.

2.17 Bank Reconciliations & Reconciliation of Sub-Ledgers

KCAPTA has one bank account outside of the Kings County Treasurer for payroll purposes only. KCAPTA receives bank statements directly from KCAPTA's financial institutions, usually within three to five business days following the close of each month. The Fiscal Specialist, assigned to reconcile bank accounts, opens the statement and reviews its contents for unusual or unexplained items, such as unusual endorsements on checks, indications of check alterations, etc. Unusual and unexplained items shall be reported to the Accountant/Auditor and Executive Director immediately. The Fiscal Specialist should not have check-signing authority, check-preparation responsibilities, or cash-recording responsibilities.

All bank reconciliations are reviewed and approved monthly by the Accountant/Auditor and the Executive Director. Any adjusting journal entries resulting from preparing bank reconciliations are approved by the Accountant/Auditor and the Executive Director. Reconciling items that require research is followed up by the Fiscal Specialist with the appropriate department.

2.18 Compliance with Government Reporting Requirements

It is the policy of KCAPTA to maintain a financial management system that provides accurate, current, and full disclosure of operating results. This will assist in ensuring compliance with laws, regulations, and provisions of awarding agencies and to ensure bills and required reports are filed timely.

KCAPTA recognizes that as a recipient of funds, it is responsible for compliance with all applicable federal and state laws, regulations, and provisions of contracts and grants. To ensure that KCAPTA meets this responsibility, the Accountant/Auditor and the Executive Director must be familiar with and comply with the directives of the Office of Management and Budget (OMB) and other publications, including but not limited to:

1. **2 CFR 225** – establishes principles for determining allowable costs applicable to Federal awards and grants, contracts, and other agreements with State and local government and agencies. All

federal agencies that sponsor awards and grants to State and local governments and agencies apply the provisions of this circular in determining allowable costs.

2. **2 CFR 200** – establishes audit requirements for federally sponsored awards and defines federal responsibilities for implementing and monitoring institutions that receive federal awards.

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~~2.~~3. **2 CFR 200.512 – establishes that the Single Audit reporting package is submitted to the Federal Audit Clearinghouse within thirty (30) calendar days after the receipt of the auditors' report, or nine (9) months after the end of the audit period, whichever occurs first.**

~~3.~~4. **Code of Federal Regulations, Title 49 – Transportation (CFR 49)** establishes uniform administrative rules for Federal grants and cooperative agreements and subawards to State, local and Indian tribal governments.

2.19 Annual Audit

It is the policy of KCAPTA to arrange for an annual audit of its financial statements to be conducted by an independent accounting firm. The independent accounting firm selected by KCAPTA will be required to communicate directly with the Board of Directors upon the completion of their audit. Every 5 years to ensure competitive pricing and a high quality of service KCAPTA should review the selection of its independent auditors. This is not a requirement to change auditors every five years, simply to re-evaluate the selection.

It is the responsibility of the Executive Director and the Accountant/Auditor to delegate the assignments and responsibilities to accounting staff in preparation for the audit.

2.20 Insurance

KCAPTA's policy is to maintain an active risk management program that includes a comprehensive insurance package. This will ensure the viability and continued operations of KCAPTA. KCAPTA will maintain adequate insurance against general liability, as well as coverage for buildings, contents, vehicles, equipment, machinery and other items of value. In addition, KCAPTA will require contractors to maintain adequate general and vehicular liability insurance for its vehicles operated under contractual agreement, as well as property damage insurance.

KCAPTA should maintain a detailed listing of insurance policies in effect. This listing should include the following information, at a minimum:

- Description (type of coverage)
- Agent and insurance company, including all contact information
- Coverage and deductibles
- Premium amounts
- Policy effect dates

3. Internal Control Procedures

3.1 Policy

Kings County Area Public Transit Agency (KCAPTA) is responsible for establishing and maintaining adequate system of administrative internal controls in all its financial, accounting, and operational functions that ensure effective accountabilities for all financial activities including grants and subgrants, cash, real and personal property, and other assets. KCAPTA's internal controls must ensure that resources are properly used and safeguarded, and that they are used solely for authorized purposes. Assets and resources must be used in accordance with State, local and Federal laws, regulations and policies, and agreements for sponsored activities.

3.2 Purpose

The system of internal controls is designed to facilitate the following:

1. Efficient and economical operations
2. Keeping obligations and costs within the limits of authorizations and budgetary requirements
3. Safeguarding assets against waste, loss and misuse
4. Timely collection and proper accounting of revenues
5. Accuracy and reliability in financial, statistical and other reports

3.3 System of Internal Controls

The system of administrative internal controls should provide reasonable assurance for the safeguarding and protection of assets. Internal control objectives and standards should consider the following:

1. Management policies must be clearly stated, understood throughout the organization, and conformed to applicable legislative and administrative requirements
2. The organization structure must clearly define, assign, and delegate appropriate authority for all duties
3. Responsibility for duties and functions must be segregated to ensure that adequate internal checks and balances exist regarding authorization, performance, recording, asset control, and review functions
4. Planning and budgeting should be based upon financial, property, and personnel resource availability and needs
5. Written procedures should be simply stated, yet meet operating, legal, and regulatory requirements
6. Procedures should consider such factors as feasibility, cost, risk of loss or error, and availability of suitable personnel

7. An information system must reliably provide needed operating and financial data for decision-making and performance review
8. Personnel must be properly qualified for their assigned responsibilities, duties, and functions and such qualifications such as education, training, experience, competence, and integrity should be considered in assigning work
9. Expenditures must conform to applicable statutes, regulations, and comply with policies and specifications related to quality, quantity, price, and time of delivery
10. All resources and assets including real property, equipment, expendables, and funds must be safeguarded to prevent misuse, misappropriation, waste, or unwarranted deterioration or destruction

4. Financial System Used to Manage FTA Grants

KCAPTA uses Kings County's Finance Enterprise to record accounting transactions. Finance Enterprise is a fully integrated accounting package utilizing fund accounting and provides for separate, self-balancing set of accounts in accordance with Generally accepted accounting principles and procedures.

5. Monitoring Performance: Strategic Plans, Budgets, Standard Costs and Variance Analysis

5.1 Overview

Strategic plans, budgets, standard costs, and variance analysis, distinct yet interrelated, help KCAPTA's manager's plan and control organizational activity. Strategic plans are the starting point, and budgets are derived from the strategic plans and usually cover a year's activity. KCAPTA's budget must be at a minimum a 1–3-year plan. Standards translate budgets to the operational level, and the variance analysis helps the organization with performance measurement, to plan subsequent budgetary goals, and directs staff to areas that need attention. Without the variance analysis, budgets and standards have the potential of turning into mere good intentions.

5.2 Functions Performed by the Budgeting Process

The budgeting or planning process serves several functions. The performance of such functions depends largely on staff itself. Staff's needs and expectations, and the use they make of budgeting, are influenced heavily by several factors related to staff background and the business system. Budgets help define performance standards, which then provide staff with guidelines about what is expected. They are the foundation of responsibility accounting, which measures staff's performance based on what they control.

The budgeting function at KCAPTA should provide the following at a minimum:

- An accurate, timely analytical tool
- The ability to predict performance
- Assistance in allocating resources
- The ability to control ongoing (current) performance
- Early warning of departure from forecasts
- Early signals of oncoming opportunities or threats
- As an organizational learning device
- Leads to organizational consensus
- Promote understanding among members of management of their co-workers' problems
- Forces the organization to examine itself
- A means of communicating
- Reduces uncertainties
- Frees managers from day-to-day operational problems through the formulation of plans, procedures, and policies
- Forces managers to think in concrete terms

As reflected in the diagram below, budgeting is an integral part of managing KCAPTA, and the primary concern in the budgeting process is meeting organizational goals and objectives. The budget is designed and prepared to direct the efficient and prudent use of KCAPTA's financial and human resources. The budget is management's commitment to a plan for present and future organizational activities, ensuring organizational longevity. It provides an opportunity to examine the composition and viability of the organization's programs and activities, simultaneously considering available resources.

5.3 Budget Preparation and Adoption

Budgets should be a product of strategic planning, and through the budgeting process, KCAPTA management can organize and effectively deploy organizational resources, help narrow the range of options, and improve the quality of decisions made. The budget process should keep a close relationship with KCAPTA's chart of accounts so that actual performance will be very close to the budget if none of the assumptions change. The closer the relationship, the easier it is to compare the budget to actual figures.

KCAPTA is required to prepare a budget annually. Proposed budget information must be submitted from staff to the Accountant/Auditor and Executive Director, who prepares the first draft of the budget. Planning information is brought together in the revenue and cost forecasts, which form the starting point of KCAPTA's operational budget. Supporting schedules include operating projections, capital projects, and human resources. Resource requirements must also be matched to resource availability and the budget must be compared with the expected outcome (analysis reconciliation) and company goals and objectives. This reconciliation step may be repeated several times before an acceptable budget is obtained. Budgets proposed and submitted by staff should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material and resource fluctuations in budgeted amounts from prior years.

After appropriate revisions and a compilation of all staff's budgets, a draft of the KCAPTA budget is presented to the Board of Director for discussion, revision, and approval. The annual budget must be adopted before June 30 of each fiscal year.

It is the policy of KCAPTA to adopt a final budget as early as practical before the beginning of its fiscal year (July 1). The purpose of adopting a final budget at this time is to allow adequate time for the accounting 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.

5.4 Budget as a Control Tool

Budgets help define performance standards at KCAPTA, which then provide staff with guidelines about what is expected. They are the foundation of responsibility accounting, which measures staffs' perforamcnes on the basis of what they actually control. Budgets are a major form of communication within an organization, and through the budgetary process at KCAPTA, communication of information is taking place. Budget information must be communicated to staff, since the information they subsequently disseminate have a lot to do with the decisions they make and how they are implemented.

Once budget information is effectively communicated to KCAPTA's staff, it is staff's responsibility at KCAPTA to ensure that plans and policies are being implemented. Seeing to it that plans are being implemented requires effective control and properly used and budgets become instruments of control by helping to set in motion the setting of standards and variance analysis, whose process is described below.

Staff should review their own performance on a monthly basis, even if the full-scale organizational review is done.

5.5 Monitoring Performance: Variance Analysis

5.5.1 Overview

Variance analysis at KCAPTA is executed to provide useful information for making decisions and to provide insights into why the actual results differ from the planned performance. A variance is the performance gap between a benchmark- usually the budgeted amount- and the actual results, typically reported in the accounting system for financial information or in operating systems for non-financial information. At KCAPTA, the most important task in the variance analysis is to understand why variances have occurred, and then to use that knowledge to promote learning and continuous improvement and to enable better planning and better cost management. Note that it is equally as important to focus on positive variances as negative variances.

> Favorable variances mean that the actual performance of the organization has been better than expected- likely to increase profit
>
> Adverse variances mean that the actual performance has been worse than expected- likely to reduce profit

The failure to realize the budget or the expectations can be the result of assorted problems. Variances, therefore, can be seen as symptoms that alert KCAPTA's staff of potential and/or actual problems that may be affecting the organization. By following up on these symptoms, staff can take corrective steps. Not every symptom can or should be followed-up, only those that suggest the presence of a problem of significant magnitude.

It is the policy of KCAPTA to monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the financial reporting process. 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 Executive Director. Variance analysis shall be the responsibility of the Accountant/Auditor and Executive Director.

5.5.2 Characteristics of the Variance Analysis

Variance reports should include, at a minimum, the following seven characteristics:

1. Side-by-side comparison of budgeted versus actual costs
2. Actual data must include information about expenses, revenue and remaining inventory levels
3. A materiality threshold or cost overrun percentage must be set for each cost center to determine the level of statistical variance deemed meaningful, to know at what point action should be taken
4. The variances reported should be itemized or broken down so that the source of variances can be easily pinpointed
5. Relationships between pairs of variables should be identified

6. Variance reports should be relevant and understandable, in terms that different levels within the organization can understand
7. The reporting of variances should occur on a quarterly basis at a minimum, as this will allow management to know as early as possible when the costs are getting out of hand and to take steps to address the problem and control it as soon as possible
8. Action plans should be established in the event of potential budget shortfalls or utilization of needed capital funds

5.6 Budget Modification and Amendments

After the budget has been adopted by the Board of Directors, reclassifications of budgeted revenue and expense amounts- which do not change the total budget- may be made by the Executive Director. Modifications of budgeted revenues and expense amounts resulting in an increase in budgeted expenses and/or decrease in budgeted revenues must be approved by the Executive Director and the Board of Directors.

6. Record Retention

KCAPTA maintains a separate policy that requires KCAPTA to retain records as required by law with disposition when appropriate. The destruction of records must be approved by the Executive Director.

7. Frequency of Written Procedures Revision

The Executive Director and staff will review and update the Financial Policies and Procedures periodically, but no less than yearly. These policies have been updated as of May 10, 2020.