



ANN ARBOR HOUSING COMMISSION

Ann Arbor Housing Commission

Accounting and Financial Policies and Procedures Manual

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INTRODUCTION

The following accounting and financial manual is intended to provide an overview of the accounting policies and procedures applicable to the Ann Arbor Housing Commission and its affiliated entities, which shall be referred to as "AAHC" or "the organization" throughout this manual.

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

The contents of this manual were approved as official policy of the organization by the Executive Director. All AAHC staff and contractors are bound by the policies herein, and any deviation from the established policy is prohibited.

These policies will be reviewed periodically and revised as needed by staff and approved by the Executive Director.

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GENERAL INFORMATION AND POLICIES

FINANCE DEPARTMENT OVERVIEW

Responsibilities

The primary responsibilities of the accounting/finance department consist of:

- General Ledger
- Budgeting
- Cash and Investment Management
- Asset Management
- Grants and Contracts Administration
- Purchasing
- Accounts Receivable and Billing
- Cash Receipts
- Accounts Payable
- Cash Disbursements
- Payroll Processing
- Financial Statement Processing
- External Reporting of Financial Information
- Bank Reconciliation
- Reconciliation of Sub-Ledgers
- Compliance with Various Reporting Requirements
- Annual Audit
- Leases as applicable

SECURITY

Accounting/Finance Department

All financial files and documents – whether digital or physical - will be kept secure. AAHC's blank check stock is stored securely in a locked file cabinet. Access to this file cabinet requires keys which are in the possession of accounting/finance staff only.

GENERAL LEDGER AND CHART OF ACCOUNTS

The general ledger is defined as a group of accounts that supports the information shown in the major financial statements. The general ledger is used to accumulate all financial transactions of the organization and is supported by subsidiary ledgers that provide details for certain accounts in the general ledger. The general ledger is the foundation for the accumulation of data and reports.

Chart of Accounts Overview

The chart of accounts is the framework for the general ledger system, and therefore the basis for AAHC's accounting reporting. The chart of accounts consists of account titles and account numbers assigned to the titles. General ledger accounts are used to accumulate transactions

and the impact of these transactions on each asset, liability, net asset/partners equity, revenues, expenses and gains and losses.

AAHC's chart of accounts is comprised of six types of accounts:

1. Assets
2. Liabilities
3. Net Assets/Partner's Equity
4. Revenues
5. Expenses
6. Gains and Losses

Distribution of Chart of Accounts

All AAHC staff involved with account coding responsibilities (assignment or review of coding) or budgetary responsibilities will be issued a current chart of accounts. As the chart of accounts is revised, an updated copy of the chart of accounts shall be distributed from time to time.

Control of Chart of Accounts

AAHC's chart of accounts is monitored and controlled by the Finance Director. Responsibilities include the handling of all account maintenance, such as additions and deletions. Any additions or deletions of accounts should be approved by the Finance Director, who ensures that the chart of accounts is consistent with the organizational structure of AAHC and the entities it manages and also meets the needs of each entity.

Account Definitions

General Ledger
Account Range
1000 - 1999

Category
Assets

Definition

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

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

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

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

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

2000 – 2799

Liabilities

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

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

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

2800 - 2999

Net Assets/Partners Equity

Net Assets/Partners Equity is the difference between total assets and total liabilities. See the next section for AAHC's policies on classifying net assets.

3000 - 3999

Revenues

Revenues are inflows or other enhancements of assets, or settlements of liabilities, from delivering or producing goods, rendering services, or other activities that constitute an organization's ongoing major or central operations. Revenues of AAHC and the entities it manages are largely limited to rental income including rental subsidy and tenant rents.

Expenses

Expenses are outflows or other using up of assets or incurrences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute AAHC's ongoing major or central operations.

Fiscal Year of Organization

The AAHC and its affiliated entities (i.e. AAHDC, Colonial Oaks) operate on a fiscal year that begins on July 1 and ends on June 30. The LIHTC entities AAHC manages operate on a fiscal year that begins on January 1 and ends on December 31.

Journal Entries

All general ledgers entries that do not originate from a subsidiary ledger shall be supported by appropriate and sufficient documentation, which shall include a reasonable explanation of each such entry. Examples of such journal entries include:

1. Recording of non-cash transactions
2. Corrections of posting errors
3. Non-recurring accruals of income and expenses

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

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

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of appropriate back-up and explanation.

It is the policy of AAHC that all journal entries not originating from subsidiary ledgers shall be reviewed by the Finance Director.

REVENUE**Revenue Recognition Policies**

AAHC's affiliated entities receive revenue mainly from rental income. Revenues include:

1. **Rent Subsidy** - Recognized as income when incurred. Tenant rents and subsidies are determined by the Occupancy Specialists and entered into the tenant record in Yardi. They are reviewed and reconciled on a monthly basis by the Financial Analyst who posts both monthly tenant rent and subsidy once the amounts are verified.
2. **Vacancies and Related Revenue Recognition** - Recognized as income when incurred. The Finance Director reviews the rent roll and vacancy reports on a monthly basis. The projects are eligible to receive vacancy payments for project-based voucher units equal to two month's rent. The Finance Director tracks vacant units and requests a vacancy payment be made from the AAHC Section 8 program for units eligible for a vacancy payment. For units that are ineligible for a vacancy payment, a journal entry is made to recognize the vacancy loss.
3. **Late Fees** - Recognized as income when incurred. Late fees are assessed for unpaid tenant balances on the 6th day of the month. They are added to tenant ledgers by the Financial Analyst.
4. **Other Tenant Charges** - Other miscellaneous tenant charges (such as lockouts, key replacements, etc.) are assessed and added to tenant ledgers as they are incurred.
5. **Other Income** - Includes miscellaneous income (i.e. interest income) as incurred.

CASH RECEIPTS

Overview

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

Processing of Payments Received

Incoming mail is opened and date stamped by the Accounting Specialist. Payments that are received in the mail are immediately restrictively endorsed "For Deposit Only". The Accounting Specialist also checks the payment drop boxes located at the various locations (currently Miller Manor, Baker Commons and the S. Industrial Admin Office) several times per week. The only acceptable payment methods at this time are checks, cashiers checks or money orders. AAHC does not accept cash or credit card payments. For all payments received, the Accounting Specialist:

- Reviews all payments received and separates them by property/entity
- Stamps all incoming checks, cashiers checks and money orders "For Deposit Only"
- Tenant rent payments are processed through the check scanner in batches by property/entity, are automatically transmitted to the bank and simultaneously applied to the tenant ledgers in Yardi.
- Miscellaneous payments for items other than tenant rent/charges are prepared via deposit slip and taken to the bank for deposit.

Checks, cashiers checks and money orders are always kept securely in a locked cabinet until ready for deposit at the bank.

TENANT RECEIVABLE MANAGEMENT

Monitoring and Reconciliations

On a monthly basis, a detailed accounts/tenant receivable report (showing outstanding balances by tenant) is generated by entity and reconciled to the general ledger by the accounting department. All differences are immediately investigated and resolved, and the reconciliation is reviewed by the Finance Director.

Balances for repayment agreements related to unreported income for participants in the HCV program are also reviewed on a regular basis.

Collections

Collections are performed on a monthly basis, according to a review of the outstanding balances shown on the tenant receivable report. This report shows the current month's activity for each tenant as well as the prior month's outstanding balance.

Tenants receive statements detailing any balances owed on a monthly basis. AAHC follows the legal eviction process for unpaid tenant balances, starting with a demand for possession and referring tenants whose balances remain unpaid to the attorney's office to either collect the balance due or proceed with the legal process to evict the tenant.

Credits and Other Adjustments to Accounts Receivable

From time to time, credits against tenant receivable from transactions other than payments and bad debts will occur. Examples of other credits include concessions, reversal of late fees or other tenant charges including adjustment related to posting errors. All such credits shall be carefully reviewed, documented and authorized.

Tenant Receivable Write-Offs

Every good faith effort shall be made to collect all amounts due from tenants. If, after every effort has been made to collect the receivable it is determined that the receivable may not be collectible (i.e. due to the death of a tenant), it may be written off. All tenant write offs are reviewed and authorized by the Finance Director and Executive Director.

POLICIES ASSOCIATED WITH EXPENDITURES AND DISBURSEMENTS

PURCHASING POLICIES AND PROCEDURES

Overview

The policies described in this section apply to all purchases made by the organization.

It is the policy of AAHC to follow a practice of ethical, responsible and reasonable procedures related to purchasing, agreements and contracts, and related forms of commitment. The policies in this section describe the principles and procedures that all staff shall adhere to in the completion of their designated responsibilities.

Responsibility for Purchasing

All managers/directors shall have the authority to initiate purchases on behalf of their areas (up to \$500 for all managers/directors except maintenance supervisor whose limit is \$2,000), within the guidelines described in this policies manual. In addition, managers/directors may delegate purchasing authority to responsible individuals within their departments. The managers/directors shall inform the accounting/finance department of all individuals that may initiate purchases.

Non-Discrimination Policy

All vendors/contractors who are the recipients of the organization's funds, or who propose to perform any work or furnish any goods under contracts and agreements with AAHC or the entities it manages shall agree to these important principles:

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

ACCOUNTS PAYABLE MANAGEMENT

Overview

AAHC strives to maintain efficient business practices and good cost control. A well-managed accounts payable function can assist in accomplishing this goal from the purchasing decision through payment and check reconciliation.

It is the policy of AAHC that the amounts recorded are based on the vendor invoice for the related goods or services. All vendor invoices must be reviewed and approved by a manager/director or his/her designee prior to being submitted to the accounting/finance department. Accounting/finance staff reviews and codes the submitted invoices with the appropriate general ledger account and processes the invoices for payment.

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

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

Recording of Accounts Payable

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

Accounts payable are processed on a daily basis. Information is entered into the accounting system from approved invoices with appropriate documentation attached.

It is the policy of AAHC that only original invoices will be processed for payment unless duplicated copies have been verified as unpaid by researching the vendor records. No vendor statements shall be processed for payment.

Accounts Payable Cut-Off

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

Processing of Invoices

The following procedures shall be applied to for each invoice by the Accounting Specialist:

1. Check the mathematical accuracy of the vendor invoice (and ensure sales tax was charged appropriately)

2. Determine the proper general ledger coding using the organization's current chart of accounts
3. Ensure proper payment authorization

Approvals by managers/directors indicate their acknowledgement of satisfactory receipt of the goods or services invoiced, agreement with all terms appearing on the vendor invoice, and agreement to pay vendor in full. Approvals are documented with initials or signatures of the approving individual.

Payment Discounts

To the extent practical, it is the policy of AAHC to take advantage of all prompt payment discounts offered by vendors. When availability of such discounts is noted, and all required documentation in support of payment is available, payments will be scheduled so as to take full advantage of the discounts.

Employee Expense Reports

Reimbursements for travel expenses, business meals, or other approved costs will be made only upon the receipt of a properly approved and completed expense reimbursement form. All receipts must be attached, and a brief description of the business purpose of trip or meeting must be noted on the form. Expense reports will be processed for payment in the next vendor payment cycle. The AAHC follows the policies set forth in the City of Ann Arbor's Administrative Policies and Procedures, Travel Policy (Policy Number 504) as it relates to meals and meal reimbursements.

Reconciliation of A/P Subsidiary Ledger to General Ledger

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

TRAVEL AND BUSINESS ENTERTAINMENT

Travel Advances

Funds will be advanced for upcoming travel only upon receipt of a completed and properly approved request for travel advance. Travel advances are to be used only for the purpose intended. Travel expenses are to be made in accordance with the City of Ann Arbor's travel policies.

Staff receiving travel advances are required to sign for the advance signifying their acknowledgement of, and agreement to, these policies. Staff receiving travel advances must submit an expense report within 30 days of returning from travel.

CASH DISBURSEMENTS (CHECK-WRITING) POLICIES

Check Preparation

AAHC generally issues vendor payments and expense reimbursements on a weekly basis.

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

1. Expenditures must be supported in conformity with the purchasing and accounts payable policies described in this manual
2. Timing of disbursements should generally be made to take advantage of all early-payment discounts offered by vendors
3. Generally, all vendors shall be paid within 30 of submitting a proper invoice upon delivery of the requested goods or services
4. Total cash requirements associated with each check run is monitored in conjunction with available cash balance in bank prior to the release of any payments
5. All supporting documentation is attached to the corresponding check or payment advice prior to forwarding the entire package to an authorized check signer
6. AAHC uses blank check stock which is stored in a locked cabinet in the accounting/finance department
7. Checks shall never be made payable to "bearer" or "cash"
8. Checks shall never be signed prior to being fully prepared

Check Signing

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

Mailing of Checks

After signature, checks are returned to the Accounting Specialist, who then mails checks immediately.

Voided Checks and Stop Payments

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

Stop payment orders may be made for checks lost in the mail or other valid reasons. Stop payments are processed by the Financial Analyst.

Record-Keeping Associated with Independent Contractors

AAHC shall obtain a completed Form W-9 or equivalent substitute documentation from all vendors to whom payments are made. A record shall be maintained of all vendors to whom a Form 1099 is required to be issued at year-end.

COMPANY CREDIT CARD POLICIES

Staff designated by the Executive Director may be issued company credit cards. The following policies and procedures are in place to ensure proper usage and documentation for all expenses being charged by staff who are company cardholders to the agency's credit card accounts.

Authorized Usage

Company credit cards are for business use only. Charges for personal items or services are not acceptable.

Original receipts must be submitted for all charges including purchases made via internet as well as periodic recurring charges. Purchases without receipts are not acceptable. Correspondence explaining no-receipt purchases are not acceptable. All original receipts must have a(n) explanation/purpose for the expense written on them. (For regular charge receipts it is preferred that the explanation be written on the back bottom part of the receipt.)

Credits for charges on the account will be tracked back to the original charge.

In the case a reimbursement is made by cardholder for charges, the reimbursement information will be documented with the original charge.

AAHC will reserve the right to revoke company credit card privileges to users not adhering to this policy.

Submission of Receipts

Original invoices/receipts must be received by the accounting/finance department no later than the 10th of each month. Copies of receipts (including faxed copies) are not acceptable.

POLICIES PERTAINING TO SPECIFIC ASSET AND LIABILITY ACCOUNTS

CASH AND CASH MANAGEMENT

Bank Reconciliations

Bank account statements are downloaded via online bank access each month. The Finance Director, who is not an authorized check signer, performs a reconciliation between the bank

balance and general ledger balance. It is the policy of AAHC to complete the bank reconciliation process for all bank accounts within the first two weeks of the following month.

Bank reconciliations and copies of resulting journal entries are filed – along with the backup documentation for that month’s activity (deposit backup, check run documentation, etc. – are securely retained in the current year's accounting files.

Cash Flow Management

The Finance Director monitors cash flow needs on an ongoing basis to eliminate idle funds and to ensure that payment obligations can be met. Cash transfers between accounts are performed on an as-needed basis and are authorized by the Executive Director.

PREPAID EXPENSES

Accounting Treatment

It is the policy of AAHC and its affiliated organizations to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses and to amortize these items over the corresponding time period. For purposes of this policy, payments of less than \$500 shall be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit.

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

Procedures

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

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

FIXED ASSET MANAGEMENT

Capitalization Policy

Fixed assets are the purchase of land, buildings, equipment, furniture, fixtures, building improvements, or leasehold improvements that have a value of \$5,000 or more and an expected life in excess of one year.

Classes of Capital Assets

LAND & BUILDINGS. All land and buildings purchased. The recorded cost shall include the purchase price, closing costs, cost incurred in getting the land in condition for its intended use, assumption of mortgages or other liens and any additional land improvements that have an indefinite life.

BUILDING IMPROVEMENTS. Building improvements are any item, group of items, outside labor costs, consultant fees, rental, applicable freight, set-up charges or other costs relative to an addition or major repair to a building subsequent to the acquisition or construction of the building.

LEASEHOLD IMPROVEMENTS. Leasehold improvements are any item, or group of items for a leased property or facility.

EQUIPMENT. Equipment is classified as a major moveable item, including but not limited to office equipment, machinery, furniture, fixtures, and furnishings.

CONSTRUCTION IN PROCESS. The costs of capital projects in process shall be held in a temporary holding account for the accumulation of costs related to each project in process. Upon completion of the project the costs shall be reclassified to the proper asset accounts.

Establishment and Maintenance of a Fixed Asset Listing

All capitalized fixed assets are recorded on a fixed assets schedule. The schedule shall include the following information with respect to each asset:

1. Date of acquisition
2. Cost
3. Description (including color, model, and serial number)
4. Location of asset
5. Depreciation method
6. Estimated useful life

Depreciation and Useful Lives

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

In the year of acquisition, depreciation is recorded based on the number of months the asset is in service, counting the month of acquisition as a full month if the asset is put in service on or before the 15th day of that month. If the asset is put in service after the 15th day of that month, depreciation for the asset will start for the following month.

Estimated useful lives of capitalized assets shall be determined by the accounting/finance department. The following is a list of the estimated useful lives of each category of fixed asset for depreciation purposes:

Buildings	Up to 40 yrs
Building Improvements	Up to 20 yrs
Land Improvements	Up to 20 yrs
Furniture, and fixtures	Up to 10 yrs
General office equipment	5 yrs
Computer hardware and peripherals	3-5 yrs
Computer software	2-3 yrs
Leased assets	life of lease

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

Repairs of Fixed Assets

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

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

Dispositions of Fixed Assets

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

Write-Offs of Fixed Assets

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

ACCRUED LIABILITIES

Identification of Liabilities

The accounting/finance department shall establish a list of commonly incurred expenses that may have to be accrued at the end of an accounting period. Some of the expenses that shall be accrued by AAHC and its affiliated entities at the end of an accounting period are:

Salaries and wages
Payroll taxes
Vacation Time

Accrued Vacation Time

Personnel policies of the City of Ann Arbor permit employees to carry forward unused vacation time up to twice the annual amount the employee is eligible for. Such unused leave is payable to an employee upon voluntary termination of employment.

Accordingly, it shall be the policy of AAHC to record a liability for accrued vacation time to which employees are entitled. The total liability at the end of an accounting period shall equal the total earned but unused hours of leave multiplied by each employee's current hourly pay rate. Adjustments to accrued vacation time are made on an annual basis at year-end.

NOTES PAYABLE

Record-Keeping

AAHC shall track all notes and mortgages payable on an ongoing basis. The tracking shall be based on the underlying loan documents and shall include all of the following information:

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

Accounting and Classification

An amortization schedule shall be maintained for each note payable. Based upon the amortization schedule, the principal portion of payments due with the next year shall be classified as a current liability on the balance sheet of AAHC and its affiliated entities. The principal portion of payments due beyond one year shall be classified as long-term/non-current liabilities in the statement of financial position. This classification will be adjusted on an annual basis at year-end.

A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment

schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

FINANCIAL STATEMENTS

Standard Financial Statements of the Organization

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

The basic financial statements of AAHC and its affiliated entities that are maintained shall include:

1. **Balance Sheet** - reflects assets, liabilities and net assets of the organization and classifies assets and liabilities as current or non-current/long-term
2. **Income Statement (P&L)** - presents support, revenues, expenses, and gains/losses of the organization
3. **Financial Statement Highlights** – provides detailed explanations of any variances or out of the ordinary items reflected on the financial statements for the balance sheet as well as month-to-date and year-to-date positions on the income statement
4. **Year-to-Date Trial Balance** – provides detailed account balances for each general ledger account including beginning balances and debit/credit transactions in summary by account
5. **Rent Rolls (as applicable)** – provides a detailed listing of all rental units including its occupant, rent amount, tenant rent and rent subsidy

Frequency of Preparation

The objective of the accounting/finance department is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner.

A standard set of financial statements described in the preceding section shall be produced on a monthly basis, by the 15th day of the following month. The monthly financial statements shall be prepared on the accrual method of accounting, including all receivables, accounts payable received by the 10th of the month, and actual depreciation expense.

Review and Distribution

All financial statements and supporting schedules shall be either prepared or reviewed and approved by the Finance Director.

The complete set of monthly financial statements, including the supplemental schedules described above, shall be distributed to the following individuals:

1. Executive Director
2. Investor/General/Limited Partner
3. Lenders as requested/required
4. Management team (as applicable)

AAHC also forwards the monthly financial statements to its Finance Committee and Board of Commissioners (in summary).

FINANCIAL MANAGEMENT POLICIES

BUDGETING

Overview

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

Preparation and Adoption

The Finance Director will prepare an annual operating (and capital budget, if applicable), involving staff as appropriate.

The budgets will be prepared on a timeline that allows for review, discussion and approval by the Executive Director. The annual operating budget will be forwarded to the applicable constituents.

Approval of the budget does not serve as independent authority for management staff individually to incur budgeted expenses. Expenditures must comply with the policy on expenditures.

Monitoring Performance

It is the policy of AAHC to closely monitor its financial performance by comparing and analyzing actual results with budgeted results. This function shall be accomplished in conjunction with the monthly financial reporting process described earlier.

On a monthly basis, financial reports comparing actual month-to-date and year-to-date revenues and expenses with budgeted month-to-date and year-to-date amounts shall be produced by the Finance Department and distributed as appropriate. The Finance Director – with help from the management team as applicable - will research major variances and maintain written variance explanations of all significant budget variances.

ANNUAL AUDIT

Preparation and Purpose of Annual Audit

An independent accounting firm shall perform an annual financial audit of the financial statements of AAHC and its affiliated entities as required to ensure that the financial position of each entity is fairly stated and report any findings as applicable.

This process will serve to obtain a professional opinion on whether the basic financial statements are presented in conformity with generally accepted accounting principles (GAAP) and to comply with various reporting requirements.

The selected auditor will produce its opinion letter, audited financial statements and management letter (if applicable).

Audited financial statements shall include the balance sheet, income statement and statement of cash flows and related disclosures and shall be prepared in conformity with GAAP.

The Finance Director will ensure that the auditors have access to all necessary financial records of the organizations and will keep the Executive Director advised of the ongoing status of the audit and developing issues.