



ANN ARBOR HOUSING COMMISSION

# **Ann Arbor Housing Commission**

## **Accounting and Financial Policies and Procedures Manual**

UPDATED **XX/XX/2026**



## **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.

It is the policy of AAHC to periodically assess financial and operational risks to ensure that internal controls and policies remain effective. Updates to policies and procedures shall be made only when a significant control gap is identified or when existing policies do not adequately address a key risk. Policy changes shall be approved by the Executive Director.

## **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 the Accounting Specialist only.

#### **User Access to Financial Systems**

It is the policy of AAHC to restrict access to financial systems to authorized individuals and to ensure that such access is appropriate to each user's job responsibilities.

Access to financial systems shall be granted based on job responsibilities and shall be approved by appropriate management. Users shall be provided only the level of access necessary to perform their assigned duties.

On at least an annual basis, a review of all users with access to financial systems shall be performed. This review shall verify that all users are current authorized individuals and that access levels remain appropriate. Any access that is unnecessary or presents a conflict of duties shall be removed or modified.

The user access review shall be documented, including the date of the review, the individual performing the review, and any changes made

## **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.

4000 - 9999

**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, Lurie Terrace, Siller Terrace) 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 have an independent preparer and approver for each journal entry.

## **REVENUE**

### **Revenue Recognition Policies**

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

1. **Rent and 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/Accountant reviews the rent roll and vacancy reports on a monthly basis. Affiliated Entities are eligible to receive vacancy payments for any project-based voucher units equal to two month's rent. The Finance Director/Accountant 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 16th day of the month. They are added to tenant ledgers by the Accounting Specialist.
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 and money orders 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, Lurie Terrace, Broadway Terrace, West Arbor, Maple Meadows, Green Baxter Court, Hikone, Creekside Court, State Crossing and the S. Industrial Admin Office) several times per week. The only acceptable payment methods at this time are checks, cashiers checks, money orders as well as debit and credit cards (for rent payments from tenants). AAHC does not accept cash. For all check, cashiers check and money order 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 for those entities with operating bank accounts at Chase Bank are processed through a check scanner and transmitted to Chase Bank for electronic deposit. Miscellaneous payments for entities with operating accounts at Chelsea State Bank are prepared via deposit slip and taken to the bank for deposit.
- Tenant credit and debit card payments are processed exclusively through Yardi's Rent Café portal by the tenant. The payments are automatically deposited into the respective bank accounts and simultaneously applied to the tenant ledgers in Yardi.

All checks, cashiers checks and money orders are kept securely in a locked cabinet until ready for deposit either via check scanner or 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**

Tenant receivables are reconciled and reviewed monthly. 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, Deputy Director and/or Executive Director as follows:

- Tenant receivables up to \$5,000 – Finance Director or Deputy Director
- Tenant receivables in excess of \$5,000 – 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**

Designated staff shall have the authority to initiate purchases (including credit card purchases) within the guidelines described in this policies manual on behalf of their areas of responsibility. Authorizations are as follows: up to \$250 for the Accounting Specialist and Financial Analyst; up to \$500 for all Property & Compliance Specialists, FSS & Support Services Coordinators and AAHC Planning Specialists; up to \$2,000 for Teamster Managers/Supervisors and the Construction Project Manager; up to \$10,000 for the Facility & Maintenance Manager, and up to \$20,000 for the Deputy Directors and the Housing and Economic Development and the Finance Directors. All purchases in excess of \$20,000 must be approved by the Executive Director. In addition, Managers/Directors may delegate

purchasing authority to responsible individuals within their departments. Managers/Directors shall inform the accounting/finance department of all individuals that may initiate purchases.

Purchases in excess of the authorization limits above shall be pre-approved in writing by the Executive Director and the pre-approval should be attached to the associated invoices/receipts prior to submission to the Finance/Accounting Department.

### **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 and vendor set up 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. Accounting/finance staff reviews and codes the 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

## **Vendor Set-Up and Management**

AAHC maintains formal controls related to the establishment of new vendors and changes to existing vendor information. The controls are designed to ensure proper authorization, documentation and verification of all vendor-related information and activities.

The Financial Analyst is responsible for adding new and maintaining existing vendors.

New vendors must complete a new vendor packet which includes a valid IRS Form W-9, direct deposit form, proof of ownership (if vendor is a landlord), and proof of insurance (where applicable) and other documentation as applicable. Prior to adding the new vendor in Yardi, the Financial Analyst checks the vendor status on sam.gov to ensure the vendor has not been debarred. All vendor-related documentation is maintained and saved.

Changes to existing vendor information, such as the mailing address, contact or account information, etc. are independently verified. The changes must be requested by a known and trusted representative of the vendor using previously established contact information. All documentation related to vendor information changes are maintained and saved.

This policy also applies to the establishment and management of payment, address or contact information related to employees of AAHC/City of Ann Arbor.

All new vendors/changes to existing vendors are approved by the Finance Director or his/her designee.

## **Vendor Review and Maintenance**

It is the policy of AAHC to maintain accurate and complete vendor information to support effective operations and reduce the risk of error or fraud.

On at least an annual basis, the accounting/finance department shall perform a review of all vendors in the financial system.

This review shall include identifying and deactivating duplicate or inactive vendors and confirming that active vendors are valid and appropriate. Required documentation, such as W-9 forms, shall be reviewed to ensure it is up to date.

As part of the review, consideration should be given to vendors with similar names, recent changes to payment or address information, or unusual transaction activity.

The vendor review shall be documented, including the date performed, the individual completing the review, and any changes made.

### **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 an ongoing basis. Invoices are uploaded and information is entered into the accounting system as they are received.

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 on or before 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/Accountant:

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 through workflows in Yardi as well as with initials or signatures of the approving individual as applicable.

### **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.

Expense reports and out-of-town travel expenses must be submitted to the Finance/Accounting department on the appropriate reimbursement form:

- The General Mileage and Expense Reimbursement Form should be used for local miles driven as well as the reimbursement of incidental business expenses;
- The Out-of-Town Travel Expense form should be used for out-of-town travel advances and expenses.

These forms are updated annually and can be found here:

<..\..\..\HOUS\Agency\Forms\AAHC Travel & Expense Report Forms>

### **Travel Advances**

Funds will be advanced for upcoming travel only upon receipt of a completed and properly approved request for travel advance (see Employee Expense Reports section above). 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.

### **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.

## **CASH DISBURSEMENTS (ACH PAYMENT/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 which only the Accounting Specialist has access to.
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.

Each credit card user's limit is established by the Executive Director. The individual purchase authorizations for credit card users follow the same limits as established in the Purchasing Policy above. All credit card receipts are reconciled to the monthly statements by the Accounting Specialist, and the Executive Director reviews and approves the monthly credit card statement/bill.

### **Authorized Usage**

Company credit cards are for business use only and are only to be used by the individual who they were issued to. Company credit cards and credit card details should never be shared with other staff. 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 should be forwarded to the accounting/finance department on an ongoing basis as they are charged/incurred but no later than the 10<sup>th</sup> of each month.

## **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 Accountant, 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.

### **Balance Sheet Reconciliations**

It is the policy of AAHC to ensure that all balance sheet accounts are reconciled on a timely and consistent basis in order to support the accuracy and completeness of financial information.

On a monthly basis, the accounting/finance department shall prepare reconciliations for all balance sheet accounts. Each reconciliation shall include the general ledger balance and sufficient supporting detail to substantiate that balance. Any reconciling items or differences shall be clearly identified and explained.

All balance sheet reconciliations shall be reviewed and approved by an individual independent of the preparer. Evidence of preparation and review shall be documented through signatures or electronic approval, including the date of completion.

All reconciliations and supporting documentation shall be maintained in an organized manner and retained in accordance with AAHC’s record retention practices. Documentation shall be sufficient to provide a clear audit trail.

### **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 \$3,000 shall be expensed as paid and not treated as prepaid expenses, regardless of the existence of a future benefit, as expenses below the threshold are considered to be immaterial.

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 15<sup>th</sup> day of that month. If the asset is put in service after the 15<sup>th</sup> 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.

## **PROJECT AND CAPITAL MANAGEMENT AND OVERSIGHT**

It is the policy of AAHC to maintain appropriate oversight over significant projects and capital expenditures to ensure that costs are properly supported, authorized, and monitored.

All significant projects shall have an approved budget prior to commencement. Project costs shall be tracked against the approved budget on an ongoing basis, and variances shall be reviewed by management.

Invoices and payment requests related to projects shall be reviewed to ensure that the costs are supported, the work has been completed, and the charges are consistent with contract terms and project scope.

Any changes to the scope, cost, or terms of a project shall be documented and approved by authorized personnel prior to implementation.

Project status, including financial performance and any significant issues, shall be reviewed periodically by management. Upon completion of a project, a final review shall be performed to ensure that total costs are reasonable and properly supported.

## **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/Sick Time

### **Accrued Time Off**

AAHC follows the HR/Personnel policies set forth by the City of Ann Arbor as all employees of AAHC are technically employees of the City with the exception of the Executive Director. These policies currently 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.

For AAHC specifically, liabilities for unused time off are not just limited to vacation time as detailed above, but a liability is also recorded for unused sick time in accordance with GASB 101. Based on the City of Ann Arbor's HR/personnel policies, employees are allowed to carry over up to 960 hours of sick time. This liability is based on an analysis of sick time taken annually in prior years and estimated accordingly. Like with the vacation accrual detailed above, the total liability at the end of the fiscal year shall be based on the projected hours of sick time multiplied by each employee's current hourly pay rate. Adjustments to accrued sick time are made on an annual basis at year-end.

No liabilities are recorded for unused Personal Time or the Floating Holiday.

## **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 (Budget to Actual Report)** - presents revenues, expenses, and gains/losses of the organization compared to budget
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 year-to-date positions on the income statement

As requested and/or required by funders, investors or other stakeholders, the financial reports may also include the following:

1. **Trial Balance** – provides detailed account balances for each general ledger account including beginning balances and debit/credit transactions in summary by account
2. **Rent Rolls (as applicable)** – provides a detailed listing of all rental units including its occupant, rent amount, tenant rent and rent subsidy
3. **Aged Tenant Receivables** – provides detailed, aged listing of amount due to each entity by tenant including prepaid rent amounts as applicable.
4. **Aged Accounts Payable Aging** – provides detailed, aged listing of amounts payables by vendor.

### **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, around the 15th day of the following month. The monthly financial statements shall be prepared on the accrual method of accounting.

### **Review and Distribution**

All financial statements and supporting schedules are prepared and reviewed by the Finance Director. Upon completion of the preparation and review of the monthly Financial Statements by the Finance Director, the Executive Director reviews the statements and approves (via email) the distribution to the Board of Commissioners (at their regularly scheduled meetings in a summarized format) as well as to other stakeholders as applicable.

The complete set of monthly financial statements, including the supplemental schedules described above (if applicable), shall be distributed to the following (as required by any applicable legal agreements):

2. Investors/General/Limited Partners
3. Lenders
4. Funders
5. Management team (as applicable)

## **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 and Accountant will prepare an annual operating (and capital budget, if applicable) budget, 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. For AAHC specifically, it shall be required for the financial audit be conducted in accordance with Government Auditing Standards ("Yellow Book"), regardless of whether a Single Audit is required.

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 other applicable 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.

## **FEDERAL AWARDS**

This policy applies to all federal awards received by AAHC for grants awarded on or after December 26, 2014.

### **Purpose**

The purpose of this policy is to ensure compliance with the requirements of **2 CFR Part 200 (Uniform Guidance)** related to the financial management and administration of federal awards. This policy establishes standards for:

- Cash management and payment processes
- Allowability of costs
- Compensation and benefits charged to federal programs
- Subrecipient monitoring
- Financial and programmatic reporting
- Record retention and audit compliance

Upon acceptance of a federal grant award, AAHC accepts responsibility to monitor all activities under the award and ensure compliance with federal requirements and performance expectations.

### **1. Roles and Responsibilities**

#### **Program/Grant Manager**

The Program/Grant Manager is responsible for:

- Monitoring grant activities for compliance with federal requirements
- Ensuring timely and accurate financial and programmatic reporting in accordance with grant requirements
- Maintaining appropriate access and capability to use required reporting systems and formats
- Verifying allowability of all costs prior to requesting reimbursement or drawdowns
- Maintaining complete and accurate supporting documentation

If there is any uncertainty regarding the allowability of a cost or activity, the Program/Grant Manager must contact the granting authority immediately for guidance. All such correspondence must be retained in accordance with record retention requirements.

### **2. Cash Management and Payments (§200.302(b)(6))**

AAHC shall maintain procedures to minimize the time elapsing between the receipt of federal funds and their disbursement.

- Federal funds will be drawn down only for immediate cash needs related to approved grant expenditures.
- Draw requests shall be based on actual expenditures incurred or imminently due.
- Advances of federal funds will be limited to the minimum amounts needed and timed to meet disbursement requirements.
- AAHC will monitor cash balances to ensure excess federal funds are not held unnecessarily.
- All disbursements (including payments to employees, vendors, contractors, and subrecipients) will be made promptly and in accordance with grant requirements.

### **3. Allowability of Costs and Documentation (§200.302(b)(7))**

All costs charged to federal awards must meet the criteria for allowability under Uniform Guidance.

Costs must be:

- **Necessary and reasonable** for the performance of the federal award
- **Allocable** to the specific program
- **Consistently treated** in accordance with AAHC accounting policies
- **Adequately documented** with supporting records
- **Compliant** with award terms and Uniform Guidance

The Program/Grant Manager shall ensure:

- All reimbursement requests align with the grant agreement
- Supporting documentation matches the financial system
- Documentation is retained, including invoices, receipts, payroll records, and time reports

This documentation must be sufficient to support future audits.

Unallowable costs, as defined by Uniform Guidance or the specific award terms, will not be charged to federal programs.

AAHC Accounting/finance department will ensure:

- Pre-approval of costs where required
- Ongoing monitoring of expenditures
- Periodic reconciliation of grant accounts

#### **4. Compensation and Benefits (§200.430 and §200.431)**

AAHC shall maintain policies governing personnel compensation and benefits charged to federal awards.

- Compensation for employees working on federal programs must be:
  - Based on established pay rates and consistent with those paid for similar work within AAHC
  - Supported by appropriate documentation (e.g., payroll records, time and effort reporting where applicable)
- Charges to federal awards for salaries and wages must reflect work performed.
- AAHC will maintain internal controls to ensure:
  - Accurate allocation of labor costs across funding sources
  - Proper approval of payroll charges
- Fringe benefits charged to federal awards must:
  - Be reasonable and consistent with the City of Ann Arbor's established benefit policies
  - Be allocated in proportion to the salaries and wages charged to the award

#### **5. Subrecipient Monitoring (§200.331 – §200.333)**

When federal funds are passed to another entity:

- The Program/Grant Manager must determine whether the entity is a contractor or subrecipient
- If uncertain, the Finance Director must be consulted

If a subrecipient relationship exists:

- A formal agreement using the most current approved template must be executed
- Subrecipient expectations, including reporting requirements, must be clearly defined
- Subrecipients must submit progress reports in time to meet federal reporting deadlines.

The Program/Grant Manager is responsible for ongoing monitoring to ensure compliance.

#### **6. Internal Controls and Oversight**

AAHC will establish and maintain effective internal controls over federal awards, including:

- Segregation of duties where feasible

- Regular financial reporting and review
- Monitoring of subrecipients, if applicable
- Periodic internal audits or compliance reviews

The Program/Grant Manager must review and comply with all applicable organizational policies, including but not limited to:

- Procurement and purchasing policies
- Record retention requirements
- Travel and expense policies
- Vendor eligibility and debarment rules

### **7. Annual Single Audit**

AAHC is subject to an annual Single Audit.

- Federal awards will be reported in the Schedule of Expenditures of Federal Awards (SEFA)
- Grants may be selected for detailed audit testing

The Program/Grant Manager must:

- Provide complete, accurate, and timely documentation upon request
- Substantiate all financial transactions related to their grants

### **8. Grant Closeout (§200.344)**

Upon completion of grant activities:

- The Program/Grant Manager shall prepare and submit all required closeout documentation in a timely manner
- Copies of all closeout documents must be provided to the Accounting/Finance
- Closeout procedures must comply with Uniform Guidance requirements

### **9. Record Retention (§200.334 – §200.338)**

All grant-related records must be retained in accordance with:

- Uniform Guidance requirements
- AAHC record retention policies

If the grant agreement imposes longer or more restrictive retention requirements, those requirements must be followed.

### **10. Policy Review**

This policy shall be reviewed periodically and updated as necessary to remain compliant with federal regulations.