PROPOSED REVISIONS TO LSC ACCOUNTING GUIDE

[Proposed revisions to the Accounting Guide for LSC Recipients are shown in redline format. Notice and request for comments concerning these proposed revisions was published in the Federal Register on February 2, 2010. Interested persons are invited to submit written comments by March 19, 2010 on the proposed revisions to the Accounting Guide for LSC Recipients by mail, fax to email to Chuck Greenfield, Program Counsel, Legal Services Corporation, 3333 K St., N.W., Washington, DC 20007; (202) 337-6813 (fax) or AccountingGuide@lsc.gov (email).]

L E G A L S E R V I C E S C O R P O R A T I O N

A C C O U N T I N G G U I D E
FOR
LSC RECIPIENTS

LSC
America's Partner For Equal Justice

~~AUGUST 1997~~____________ 2010

2010 PROPOSED REVISIONS TO ACCOUNTING GUIDE FOR LSC RECIPIENTS

T A B L E O F C O N T E N T S

2010 PROPOSED REVISIONS TO ACCOUNTING GUIDE FOR LSC RECIPIENTS

CHAPTER 1 - INTRODUCTION

1-1 Definitions

The following terms are used throughout this Guide and are defined as follows:

Accounting Guide	This Accounting Guide (Guide) for Recipients, which is issued by LSC.
Accounting Standards Codification (ASC):	On July 1, 2009 the Financial Accounting Standards Board (FASB) released the authoritative version of the *FASB Accounting Standards Codification* (Codification) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, created Codification Topic 105, Generally Accepted Accounting Principles, and established that the Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered nonauthoritative. Changes to the source of authoritative U.S. GAAP, the *FASB Accounting Standards Codification* (FASB Codification), are communicated through Accounting Standards Updates (ASU).
Act	Public Law 93-355/Public Law 95-22 ("The Legal Services Corporation Act, as Amended") enacted by Congress July 25, 1974, amended December 28, 1977. [42 U.S.C. Section 2996 et seq.]
American Institute of Certified Public Accountants (AICPA)	The national professional organization for all Certified Public Accountants that develops ~~of CPA's. It promulgates~~ auditing and ~~standards and, prior to 1973,~~ accounting standards issued in Statements of Position, Audit and Accounting Guides, Practice ~~Accounting Research~~ Bulletins and Issue Papers. ~~Opinions, which have the same level of authority as Financial Accounting Standard Board Statements. Currently, through its~~ Its senior technical body, the Accounting Standards Executive Committee (AcSEC) monitors the financial reporting standard-setting process and the activities of the AICPA accounting standards technical committees. ~~The AICPA issues accounting standards and guidance in Statements of Positions, Audit and Accounting Guides, Practice Bulletins, and Issue Papers.~~

Annual Financial Statements	Include a Statement of Financial Position (or Balance Sheet), Statement of Activities, Statement of Revenue, Expenses and Changes in fund balances for state and local governments, Statement of Cash Flows, and notes to the financial statements.
Audit Guide	The current edition of the Legal Services Corporation Office of Inspector General (OIG) Audit Guide for Recipients and Auditors.
Committee of Sponsoring Organizations of the Treadway Commission (COSO Report)	The National Commission on Fraudulent Reporting, more commonly referred to as the Treadway Commission, was formed in 1985 to inspect, analyze, and make recommendations in what appeared at that time to be an alarming increase in fraudulent corporate financial reporting. The Treadway Commission studied the financial information reporting system over the period from October 1985 to September 1987 and issued a report of findings and recommendations in October 1987. In September of 1992, the four volume report entitled *Internal Control—An Integrated Framework* was released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A key objective of the study is to assist the management of various business entities to control their organization's activities.
Emerging Issues Task Force (EITF)	Established in 1984 by FASB to provide guidance on new and emerging issues affecting financial reporting, the EITF issues Abstracts that report the accounting issues discussed, the results of the discussions and the consensus reached.
External Reporting	Financial Statement Reporting to outsiders, which must conform with GAAP.

Financial Accounting Standards Board (FASB)

The designated organization since 1973 to establish and improve standards of financial accounting and reporting for private and non-profit entities. ~~A body appointed by the Financial Accounting Foundation and~~ recognized as authoritative by the Security and Exchange Commission (SEC) and the AICPA under Rule 203 of the AICPA Code of Professional Standards. ~~to establish and improve financial accounting and reporting standards through the issuance of:~~ FASB issues Statements of Financial Accounting Standards, Interpretations, Technical Bulletins and Statements of Financial Accounting Concepts. ~~In 1984, the FASB established the Emerging Issues Task Force (EITF) to provide guidance on new and emerging issues affecting financial reporting. The EITF issues Abstracts that report the accounting issues discussed, the results of the discussion, and the consensus reached.~~

Generally Accepted Accounting Principles (GAAP)

Accounting principles, practices or methods used to prepare, present and report financial status. ~~accepted as satisfactory by a significant number of recognized accountants organizations necessary at a particular time that represent accepted accounting principles and practices. Accounting principles encompass unwritten and written principles. The written principles are commonly referred to as promulgated GAAP.~~ The current authoritative sources of GAAP are ~~the~~ FASB, EITF, Governmental Accounting Standards Board and AICPA.

Government Accounting Standards Board (GASB)

A body formed in 1984, GASB issues Statements, Interpretations, Technical Bulletins, and Concepts Statements which have the same level of authority for governmental entities as FASB pronouncements have for private sector entities and not-for-profit organizations.

Internal Control

A process effected by an entity's governing body, management and other personnel, designed to provide reasonable assurances regarding the achievement of objectives in the following categories:
(1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Internal Reporting

Internal recordkeeping and reporting for management and the governing body.

Office of Management and Budget Circulars

Directives issued by the Executive Office of the President to exercise managerial and policy direction and guidance over federal agencies. They provide policy guidance or processes over a broad range of subjects from instructions on financial management and control systems to auditing of and cost principles for state and local

	governments and not-for-profit organizations receiving federal awards.
Recipient	Any entity as defined in Section 1002(6) of the Act and any grantee or contractor receiving funds from the Corporation under Section 1006 (a)(1) or (a)(3) of the Act..
Sarbanes-Oxley Act	The Sarbanes-Oxley Act of 2002 was enacted in response to the high-profile Enron and WorldCom financial scandals to protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise. The act is administered by the Securities and Exchange Commission (SEC), which sets deadlines for compliance and publishes rules on requirements.
Subrecipient	Any entity that accepts Corporation funds from a recipient under a grant, contract or agreement to conduct certain activities specified by or supported by the recipient related to the recipient's programmatic activities. (See 45 CFR Section 1627.2(b)(1)).

1-2 Background

In 1974, the United States Congress established the Legal Services Corporation ("LSC" or "Corporation") to provide legal assistance to eligible persons in civil proceedings. Legal Services Corporation Act, PL. 93-355, 42 U.S.C. Section 2996 et seq. ("LSC Act"). The Corporation is a non-profit corporation located in the District of Columbia. Congress appropriates federal funds to LSC on an annual basis. LSC, in turn, makes grants, or enters into contracts, with private attorneys, qualified nonprofit organizations, state or local governments or sub state regional planning or coordination agencies to provide legal assistance to eligible individuals.

Recipients are required to serve their clients effectively and economically ~~their clients~~ in compliance with the LSC Act, annual LSC appropriations, other federal statutes, and LSC regulations, rules, guidelines, and policies. As with many other federally supported programs, LSC is required to evaluate recipients of its funds to ensure compliance with applicable laws.

1-3 Purpose

This ~~guide~~ Guide is designed for use by recipients of LSC funds. The Guide sets forth financial accounting and reporting standards for recipients of LSC funds, and describes the accounting policies, records, and internal control procedures to be maintained by recipients to ensure the integrity of accounting, reporting and financial systems. In addition, the Guide includes illustrative appendices which describe accounting practices and procedures~~,~~ (such as the illustrative financial statements and chart of accounts~~,~~) acceptable to LSC. These illustrations are not mandatory and do not preclude the exercise of the recipient's professional judgment in developing additional or alternative accounting and reporting procedures that meet LSC requirements.

This Guide is to be used in conjunction with, and is consistent with, the LSC Audit Guide.

In accepting LSC funds, recipients agree to administer these funds in accordance with ~~the LSC Act, as amended, applicable appropriation riders, regulations, guidelines, policies, terms and conditions in effect at the time of the award.~~ requirements of the Legal Services Corporation Act of 1974 as amended (Act), any applicable appropriations acts and any other applicable law, rules, regulations, policies, guidelines, instructions, and other directives of the Legal Services Corporation (LSC), including, but not limited to, LSC Audit Guide for Recipients and Auditors, this Accounting Guide, the CSR Handbook, the LSC Property Manual and the Property Acquisition and Management Manual, and any amendments to the foregoing.

1- 4 **Authority**

LSC has prepared this Accounting Guide under the authority provided by the following sections of the LSC Act:

Records and Reports - LSC Act Section 1008:

"(a) The Corporation is authorized to require such reports as it deems necessary from any recipient, contractor or person or entity receiving financial assistance under this title regarding activities carried out pursuant to this title."

"(b) The Corporation is authorized to prescribe the keeping of records with respect to funds provided by grant or contract and shall have access to such records at all reasonable times for the purpose of insuring compliance with the grant or contract or terms and conditions upon which financial assistance was provided."

Audit - LSC Act Section 1009(c)(1):

"The Corporation shall conduct or require each recipient, contractor, person or entity receiving financial assistance under this title to provide for an annual financial audit."

Recipient's Non-LSC Funds - LSC Act Section 1010(c):

"Non-Federal funds received by the Corporation, and funds received by any recipient from a source other than the Corporation, shall be accounted for and reported as receipts an d disbursements separate and distinct from Federal funds..."

1-5 **Responsibilities of Recipients and the Submission of the Annual Financial Statement Audit**

Recipients are required to establish and maintain adequate accounting records and control procedures. Recipients are also required to provide for an annual financial statement audit pursuant to Section 1009(c)(1) of the LSC Act and in accordance with the Audit Guide, which incorporates applicable Office of Management and Budget (OMB) Circulars.

1-6 **Responsibilities of the Auditor**

The responsibilities of a recipient's auditor are described in the ~~LSC's~~ LSC Audit Guide and OMB Circulars.

1-7 **Responsibilities of the Financial Oversight Committee or Committees**

Each recipient's governing body has a fiduciary responsibility to the program and must establish a financial oversight committee or committees. It is considered a best practice for governing bodies to have both a finance committee and a separate audit committee. It is also considered a best practice for a governing body to have at least one member who is a financial expert or for the board to have access to a financial expert.

The financial oversight committee(s) should, at a minimum engage in all of the responsibilities described below. In the event a governing body does not have a separate audit committee, the audit committee's functions should be performed by the finance committee or another committee of the board.

The finance committee's role, subject to any reqirements of state law:

1. Revises budget and makes recommendations to the full board of directors;
2. Reviews monthly financial statements with chief financial officer, controller, and/or CPA
3. Reviews accounting and control policies and makes recommendations for changes and improvements;
4. Reviews the audited financial statements, management letter, and senior staff's response with staff and auditor;
5. Regularly reviews and makes recommendations about investment policies;
6. Coordinates board training on financial matters. Acts as liaison between full board and staff on fiscal matters.

The audit committee's role, subject to any requirements of state law:

1. Hiring the auditor;
2. Setting the compensation of the auditor;
3. Overseeing the auditor's activities;
4. Setting rules and processes for complaints concerning:
   a. Accounting practices
   b. Internal control practices
5. Reviewing the annual IRS Form 990 for completeness, accuracy, and on-time filing and providing assurances of compliance to the full board.
6. Risk assessment, governance, compliance and ethics.

The duties and responsibilities of the financial oversight committee(s) should be defined in the recipient's bylaws or a governing body resolution or operating policies and procedures. The financial oversight committee(s) should:

(a) Provide assistance to the board in fulfilling its fiduciary responsibilities relating to accounting and reporting practices;

(b) Maintain communication between the board and the auditor;

(c) Institute any changes necessary to ensure proper oversight and control of funds;

(d) Guide the process of selecting the recipient's auditor, including recommending to the governing body the appointment of a particular auditor;

(e) Meet with the auditor to discuss, inquire about and review audit reports and financial statements, and the effectiveness of the recipient's management of financial and accounting functions;

(f) Review and recommend the approval of the recipient's annual budget; and

(g) Review the recipient's periodic management reports.

1-8 Relationship of the Accounting Guide to LSC Regulations

LSC promulgates regulations that govern recipients' use of Corporation funds. These regulations appear in 45 CFR Part 1600 et seq. and can be found at http://www.lsc.gov/laws/regulations.php. As a condition on their grants, recipients are required to adopt accounting policies and procedures that meet the requirements of these regulations, and to modify those policies and procedures as necessary when any of the regulations are amended or new regulations are issued. In this Guide, a number of these regulations are referred to because they establish accounting policies for the Corporation, but the content of these regulations is not repeated in the Guide. A list of LSC regulations is included in Appendix VIII. ~~Instead, these regulations are included in Appendix VIII .~~ Whenever such a regulation is referred to in the Guide, recipients should refer to the current version of the regulation. ~~read the appendix for the full text of the specific regulation. Recipients should also update this appendix as and when these regulations are revised.~~

1-9 Effective Date

The effective date of this Guide is ~~August 14, 1997~~__________, 2010.. It supersedes all previous editions of Accounting Guidance.

1-10 Revisions to the Guide

LSC may periodically make revisions to this Guide. A current version of the Guide will be posted on LSC's website. The recipient and its auditor should keep their copies of the Guide current, incorporating all revisions into the Guide. ~~upon receipt.~~. It is the responsibility of the recipient to furnish copies of the current Guide, and revisions thereto, to its auditors.

1-11 **Cumulative Status of Revisions**

Effective Date	Description
August 1976	Original Edition of Audit and Accounting Guide for Recipients and Auditors issued.
June 1977	Revised Original Edition of Audit and Accounting Guide issued.
September 1979	Revision to Pages 4-1 and 6-6.
September 1981	Revision to Pages ii, 4-1, 6-6, VII-3, and addition of Page 4-2.
January 1, 1986	Revised Edition of Audit and Accounting Guide Issued.
May 1986	LSC permits recipients to use either Original or 1986 version of Audit an d Accounting Guide.
August 13, 1986	Regulation 1630 Replaces Chapter 4 of both the Original and 1986 Edition of the Audit and Accounting Guide.
December 31, 1995	Chapter 6 of both Original and 1986 Aud it and Accounting Guide replaced by November 1995 Audit Guide.
December 31, 1996	November 1995 Audit Guide replaced by November 1996 Audit Guide.
August 14, 1997	1997 Accounting Guide replaces all accounting portions of both Original and 1986 Audit and Accounting Guide.
, 2010	2010 Accounting Guide replaces the 1997 Accounting Guide.

CHAPTER 2 - ACCOUNTING, FINANCIAL MANAGEMENT AND REPORTING GUIDELINES

2-1 ACCOUNTING PRINCIPLES

2-1.1 OVERVIEW

This chapter discusses LSC's accounting, financial management and reporting guidelines. In general, LSC requires recipients and subrecipients (hereinafter recipients) of its funding to: (1) manage LSC and non-LSC funds in a stewardship manner and pursuant to the cost standards and procedures of 45 CFR Part 1630; and (2) record transactions in accounting records and prepare annual financial statements in accordance with GAAP.[2]

LSC recognizes that the applicability of these guidelines will vary among recipients; however, the guidelines contained in this Accounting Guide reflect GAAP methods that will result in the most meaningful financial information for LSC, and for most readers of an LSC recipient's financial statements. LSC prefers and recommends that its recipients report their LSC grant activity in a supplemental schedule to annual audited financial statements, if not separately reported in the basic financial statements.

2-1.2 PRINCIPLES

The purpose of the financial statements is to disclose the sources of the recipient's resources and how those resources were used, i.e., "Stewardship reporting." A recipient’s accounting records should support the amounts disclosed in the financial statements.

Under GAAP, not-for-profit organizations and other entities that receive contributions are required to report in their financial statements contributions in various classes of net assets based upon the presence or kind of donor-imposed restrictions. In some instances, a recipient's total support will be provided by LSC; however, for most recipients there will be additional funding. There are ~~two~~ three categories of support (i.e., grant revenue) that most recipients receive -- temporarily restricted~~, and~~ unrestricted and permanently restricted.

Temporarily Restricted Support are those resources which bear a legal restriction, imposed by the resource provider as to when and how they are used. Temporarily restricted support becomes unrestricted when it is expended in accordance with the restrictions or when the

[1] For a listing of GAAP~~, see AICPA Statement of Auditing Standards No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditors Reports.~~ for non-governmental entities see FASB Accounting Standards Codification of Generally Accepted Accounting Principles. Not-for-Profit ~~organizations~~ entities should also follow the AICPA Audit and Accounting Guide, Not-for-Profit ~~Organizations~~ Entities. (See definitions of Generally Accepted Accounting Principles (GAPP) and the American Institute of Certified Public Accountants (AICPA) in section 1-1 of this Guide.) ~~State and local governments should follow the AICPA Audit and Accounting Guide, Audits~~

restrictions are removed by the resource provider. LSC grant revenue should be classified in the financial statements as temporarily restricted revenue and as increases to temporarily restricted net assets until expended on LSC eligible activity, at which time they can be reclassified as unrestricted.

Unrestricted Support are those resources over which the recipient's governing body has discretionary control, within the limitations of its charter and bylaws, regarding when and how to use the resources in carrying on the recipient's operations. A recipient's funds from sources other than LSC, which would otherwise be categorized as unrestricted funds, are not rendered temporarily restricted by the fact that they many not be used for certain purposes pursuant to the terms of an LSC grant (see 45 CFR Part 1610).

Permanently Restricted are those resources which are ~~In addition, some recipients receive and maintain permanently restricted funds~~ in the form of endowments, with the principal of the gift or bequest remaining intact. Only the income from investing the principal may be used by the entity. Depending upon the terms of the endowment, income may either be spent at the discretion of the governing body or it may be restricted to a particular use. The provisions of the gift would determine the accounting treatment for the income and principal.

Each recipient should establish and maintain an accounting system to record separately grants, contracts and contributions. From its accounting records, a recipient should be able to prepare its financial statements in accordance with GAAP, including the requirement of separate records for net assets (fund balances), revenues, support, expenses, gains, losses and contributions based on the existence or absence of donor-imposed restrictions on funds.

Each recipient should evaluate the reporting requirements stipulated by each funding source to ensure that proper accounting and external reporting are followed in the financial statements and accounting records. GAAP requires that the financial statements:

(a) provide basic information that focuses on the organization as a whole and meets the common need of the external users (LSC and others) of the statements;

(b) provide a statement of financial position (balance sheet), a statement of activities (statement of revenue, support, expenses and changes in net assets), a statement of revenue, expenses and changes in fund balances for state and local governments (when applicable), a statement of cash flows, and notes to the financial statements; and

(c) report and classify net assets, revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions.

Net assets (i.e., grant revenues and contributions) not expended during an accounting period or designated for future periods are to be classified as either permanently restricted, temporarily restricted, or unrestricted net assets. Advance payments from non-LSC sources based on contracts for services not yet performed or contributions made with a provision that the donation be returned if a specified future event occurs or fails to occur, contain conditions and may be accounted for as a refundable advance, a liability. However, unexpended LSC grant contributions are considered to be funds with donor imposed restrictions rather than conditions and ~~At the end of the grantee's fiscal year, unexpired LSC grant contributions~~ should be reported as temporarily restricted net assets.

LSC regulations allow recipients to carryover a fund balance of up to 10% of their LSC support from one year to the next. (See 45 CFR § 1628.3) In special circumstances, a recipient may request a waiver to retain a fund balance of up to 25% of their LSC support. In the absence of a waiver, a fund balance in excess of 10% must be repaid to LSC.

The balance in each class of net assets is to be displayed in the statement of financial position, and the amount of change in each of those classes is to be displayed in the statement of activities. (See section 2-4.2 ~~on~~ Annual Financial ~~Reporting~~ Statements for further discussion of recipient's financial statements.)

Because LSC requires separate disclosure as part of the financial statements (either within the overall statement of activities or as a separate schedule), LSC recipients should maintain a fund-based accounting system at least for LSC funds. Other grantors may impose similar requirements. In addition, within this system, recipients of LSC funds must maintain:

(a) a client trust fund and accounting system to account for funds held on the client's behalf; and

(b) a property fund to: (1) accumulate the cost (or fair value if donated) of building, furniture, fixture, equipment, leasehold improvements, and law library; (2) reflect depreciation and amortization thereon; (3) record gains or losses from the disposition of such assets; and (4) record any other transactions specifically relating to fixed assets.

2-2 FINANCIAL MANAGEMENT: ASSETS, SUPPORT AND FUND BALANCES

2-2.1 RECOGNITION OF LSC GRANT AND CONTRACT SUPPORT

LSC recipients should follow FASB ASC 958.605 Revenue Recognition (Statement No. 116) ~~-- Accounting for Contributions Received and Contributions Made.~~ Specifically, LSC grant and contract support should be recognized and reported as a contribution with donor-imposed restrictions. LSC grant and contract funds along with derivative income should be recognized, classified and reported in the recipient's financial statements as temporarily restricted revenue and increases in temporarily restricted net assets. Temporarily restricted LSC net assets can be reclassified as unrestricted only when eligible expenses are incurred.

Also, LSC grant and contract revenue may be recognized as unrestricted revenue if the grant is fully expended during the grant period, i.e., the recipient's reporting period, and there are no carryover funds, i.e., net assets. If a recipient follows this treatment, ~~this~~ the policy must be disclosed in the notes to the financial statements and consistently applied. (See Appendix I.2)

The accounting policies associated with grants and contracts must be disclosed in the notes to the financial statements. (See Appendix I.2). The details of the components of LSC support and net assets balances (unexpended current year funds or funds designated for future periods) must also be disclosed in the notes and/or schedule of awards.

For purposes of accounting and financial statement reporting, awards from LSC can generally be categorized into two distinct types:

Annualized Single or Multi-Year Grants/Contracts: An annualized grant/contract is awarded to support a certain level of legal services activities over a specified period - most commonly the same one year period covered by a current federal appropriation and should be released from restrictions as eligible costs are incurred during the period specified in the grant/contract. Annualized multi-year LSC grants provide assurance of a grant for one or more service areas for each year of the grant award. The amount is determined each year based on congressional appropriation and LSC funding policy.

One-time Grants/Contracts: A one-time grant/contract can be awarded to support a specific event, project, or one-time purchase or activity, or it can be awarded as a one-time infusion of resources to support the recipient's annualized activities. One-time grants that are essentially one-time infusions to the annualized grant/contract should be recorded as support as eligible costs are incurred during the period specified in the grant/contract -- consistent with the accounting for the annualized grant/contract. Until expenses are incurred for the restricted activity, one-time grants in this category should be included and recorded in the recipient's financial statements as a liability (e.g., ~~Grants Payable~~ Unearned Grant Revenue) on the statement of financial position. Executed one-time grants must be reported separately in the financial statements in accordance with 45 CFR §1628.3(e). This may be done by providing a supplemental schedule of related revenue and expense or a separate column within the financial statement reporting on grant activities. When a one-time grant or contract expires or is terminated, the unexpended amount is to be returned to LSC.

2-2.2 CASH AND INVESTMENTS

LSC Investment Guidelines: LSC funds held for immediate operating expenses must be maintained in federally-insured bank accounts. LSC funds in excess of the Federal Deposit Insurance Company limits and not needed for immediate operating expenses should be invested with another financial institution in federally-insured accounts or certificates, or invested in U.S. Treasury notes or bills or investment instruments, for example, money market accounts and repurchase agreements that invest in U.S. government securities.

If, after considering LSC's investment guidelines, above, a recipient adopts policies outside these guidelines, LSC will not override the judgment of the recipient's governing body. In such cases, the governing body must acknowledge, by resolution, the divergence from LSC's authorized policy and the acceptance of full responsibility for the security of any investments made outside of LSC's guidelines. In cases of losses of LSC funds related to investment decisions made outside of LSC guidelines, for purposes of personal liability, the governing body will be held to the standard of care imposed by applicable state or federal law.

GAAP requires that dividends, interest and other investment income be reported in the period earned as increases in unrestricted net assets unless the use of the assets (cash) received is limited by donor-imposed restrictions. LSC imposes such a restriction. LSC requires that any income such as interest and other investment income earned on its funds must be recorded and presented with LSC funds in the financial statements. Recipients may use such income for activities allowable with their current LSC grant.

LSC recipients are required to follow GAAP (See FASB ASC 958.320 Investments – Debt & Equity Securities (Statement No. 124~~) -- Accounting for Certain Investments Held by Not-for-Profit Organizations)~~ and GASB ASC 820 Fair Value Measurements & Disclosures (Statement 157) in the measurement of its investments. Information regarding the nature of and carrying amounts for each individual investment or group of investments must be disclosed in the notes to the financial statements.

2-2.3 CLIENT TRUST FUNDS

Client trust funds are funds received from or on behalf of a client. A separate escrow bank account must be opened and designated solely for client trust funds. A separate client trust record must be maintained for each client to document the receipt and disbursement of client funds. The total of the individual client trust records must equal the cash in the escrow bank account's corresponding liability accounts.

Client trust funds are not the property of the recipient and should not be reflected in the statement of activity. However, the cash in the escrow bank account, and an offsetting liability balance, are reported on the statement of financial position, and changes in the amount of client trust funds are reported in the statement of cash flows.

Recipients should consult with their bar associations for the proper handling of client trust funds. State escheat laws govern the disposition of unclaimed client trust funds. See Appendix V -- Accounting for Client Trust Funds.

2-2.4 PROPERTY

Recipients, for financial statement purposes, must capitalize and depreciate all nonexpendable items with a cost in excess of $~~1~~5,000 and a useful life of more than one year. Recipients have the discretion to capitalize items with a lower value. Property should be presented in the financial statements in the class of net assets that were used to ~~purchased~~ purchase the property. LSC recommends consultation with the recipient's auditor with respect to the proper reporting of property under GAAP.

LSC maintains ~~a reversionary~~ an interest in all nonexpendable property (including real property) purchased in whole or in part with LSC funds by a recipient. For real property, specific terms for disposition will be determined between LSC and the recipient in an LSC property interest agreement when approval is given for the purchase with LSC funds. For nonexpendable personal property, LSC~~'s reversionary interest~~ requires that property purchased with LSC funds must be disposed of in accordance with LSC's Property Acquisition and Management Manual or its duly adopted successor.

In view of ~~the reversionary~~ LSC's interest in real and personal property acquired with LSC funds, asset accountability is critical. Capitalization of property is an integral part of discharging an LSC recipient's stewardship responsibilities over these assets. In addition to allowing the fair presentation of investments in property on the statement of financial position, capitalization helps ensure more effective controls over property and also subjects this account to more stringent auditing procedures. Accordingly, LSC requires capitalization of the cost of property (or fair value at the time donated). For similar reasons, LSC requires the recording of depreciation over an asset's useful life as an expense of rendering current services.

Although nonexpendable and real property purchased during a year will not be recognized as an expense for that year, the funds used for the purchase of that property are considered a current-year grant or contract charge.

The accounting policies for property should also be followed for a recipient's law library. The costs of maintaining a law library should be expended currently. Judgments as to what constitutes a maintenance item and what constitutes a capital addition must be made after evaluating the nature and significance of the items in question (see Appendix II, Property Records). The law library may be depreciated over the useful life of the library for the difference between the original cost and the salvage value; if the salvage value approximates original cost, depreciation would be immaterial and therefore would not be necessary. LSC recommends consultation with the recipient's auditor with respect to the policies to be adopted.

Under GAAP, depreciation expenses should be reported in the statement of activities as a decrease in unrestricted net assets. If the property and equipment being depreciated have been contributed to the organization with donor-imposed restrictions on the item's use, (e.g., property purchased with LSC funds) temporarily restricted net assets should~~, over time,~~ be reclassified as unrestricted net assets in a statement of activities as those restrictions ~~expire.~~are satisfied. The amount to be reclassified under GAAP may or may not be equal to the amount of the related depreciation. The amount to be reclassified should be based on the length of time indicated by the donor-imposed restrictions while the amount of depreciation should be based on the useful economic life of the asset.

Reclassifications are also necessary if the entity has adopted an accounting policy that implies a time restriction on contributions of property and equipment that expires over the useful life of the contributed assets. Reclassifications should be included as "Net Assets Released from Restrictions" in a statement of activities.

LSC requires its recipients to depreciate property purchased with its funds based on the useful life of the asset. LSC property should be classified and reported in the financial statements as temporarily restricted net assets and reclassified as unrestricted in amounts equal to related depreciation. See Appendix I -- Illustrative financial statements -- Supplemental schedule for LSC grants.

For property control purposes, a physical inventory should be taken and the results reconciled with the property records at least once every two (2) years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference, and the accounting records should be reconciled to the results of the physical inventory with an appropriate note included in the financial statements, if determined to be material by the recipient's auditor.

Property and depreciation accounting practices are discussed and illustrated in detail in Appendix IV -- Accounting for Property.

2-2.5 DONATIONS

Donated items may include cash or cash equivalents, material, space, property and services contributed to recipients by individuals or organizations. In order to ascertain the total cost of providing legal assistance, such non-cash items, if their value can be clearly ascertained, should be recognized, recorded, and reported as "gifts-in-kind, contributions or donations" in the recipient's financial statements as both support and offsetting expenses. (See FASB ASC 958.605 Revenue Recognition (Statement 116) and FASB ASC 958.320 Investments – Debt & Equity Securities (Statement 157).)

Donated materials and property should be recorded at their fair value at the time donated and, in the case of nonexpendable assets, depreciated over their useful life. Fair value must be determined using the most objective and clearly measurable basis available. If the value assigned to donated items is material, the donation and valuation should also be approved by the recipient's governing body. Similarly, the free use of space and other assets should be recorded as a donation and recorded at the fair value of the use, with an offsetting charge to the applicable expense.

Donated items should be reported in the financial statements as revenue in the class of net assets appropriate to any donor-imposed restrictions on the contribution. If there are no restrictions, the revenue from the contribution is recorded as unrestricted. If the donation is initially reported as temporarily restricted, the restriction is deemed to expire ratably over the useful life of the asset, i.e., in proportion to depreciation for a comparable depreciable asset. The expiration is reported as a reclassification from the temporarily restricted to the unrestricted class of net assets.

Donated services recognition in the financial statements is critical to a reasonable evaluation of the total cost and scope of legal assistance provided by recipients. GAAP set forth fairly specific criteria which, if met, require the recording or, if not met, preclude the recording of donated services. (See FASB ASC 958.605.25 Revenue Recognition (Statement No. 116). ~~¶ 9 -- Contributed Services)~~

LSC recommends consultation with the recipient's auditor with respect to the proper reporting of donations under GAAP.

Under GAAP, contributed (donated) services should be reported as contribution revenue and as assets or expenses only if the services create or enhance a nonfinancial (i.e., nonmonetary) asset (e.g. property and equipment) or require specialized skills that are provided by individuals possessing those skills (such as accounting, financial, construction, educational, electrical, legal, medical, and other services provided by accountants, investment advisers, contractors, teachers, electricians, lawyers, doctors, and other professionals and craftspeople), and would typically need to be purchased by the organization if not provided by donations.

If contributions are reported, they should be measured at fair value. The dollar value assigned to donated services should be reflected as unrestricted revenue in the financial statements. On the expense side, the value of such services should be allocated to program and supporting services categories based on the nature of the work performed. The recording of donated services will not affect net assets, since the income and expenses offset each other. The notes to the financial statements should disclose the nature of donated services and the valuation techniques followed.(See Appendix I.2)

LSC recommends that each recipient establish a method to value and record donated services. Normally, the valuation should be at what the cost to the recipient would have been if the services had been purchased by the recipient. Adequate records must be maintained during the year to support the value of donated services recorded, but the actual recording of the services could be done quarterly or at year-end.

For professional legal services, two methods are suggested as providing sufficient documentary support -- a predetermined fee schedule or an hourly rate. A major advantage of the fee schedule is that it can be used without having to impose timekeeping requirements on those professionals donating their time to the program. The subject of the adequacy of support for donated services should be discussed with the recipient's auditors. It is usually not necessary to impose detailed record keeping requirements upon donors as long as internal records are adequate and provide an audit trail. Also, see 45 CFR Part 1635 for LSC Timekeeping Requirements - Appendix VIII -- Corporation regulations setting accounting policies.

Whether or not professional legal services rendered to clients as part of a recipient's private attorney involvement effort (See 45 CFR Part 1614) should be reported as donated services depend on whether GAAP requirements are satisfied. LSC recipients should also give close attention to the following example from FASB ASC 958.605.55.81 Revenue Recognition Implementation Guidance & Illustrations (Statement No. 116), ~~¶180~~ :

> *This example illustrates the guidance in paragraph 958.605.25.23. Not-for-Profit Entity B (NFP B) ~~Organization E~~ develops and maintains a list of lawyers and law firms that are interested in providing services without charge to charitable organizations and certain individuals. ~~Organization E~~ NFP B encourages individuals in need of free legal services to contact*

~~Organization E~~NFP B for referral to lawyers in the individual's community that may be willing to serve them. The decision about whether and how to serve a specific individual rests with the lawyer. Under those circumstances, ~~Organization E~~NFP B merely acts as an intermediary in bringing together a willing donor and donee. The free legal services are not a contribution received by ~~Organization E~~NFP B.

2-2.6 COURT-AWARDED ATTORNEY FEES

Pursuant to 45 CFR Part 1642, no recipient may claim or collect and retain attorneys' fees for any case filed after April 25, 1996. An attorney's fee is defined in this part as "an award to compensate an attorney of the prevailing party made pursuant to common law or Federal or State law permitting or requiring the awarding of such fees or a payment to an attorney from a client's retroactive statutory benefits." To claim attorneys' fees means to include a request for attorneys' fees in any pleading.

Attorneys' fees may be claimed and collected in a case filed prior to April 26, 1996, except that fees may not be claimed and collected for any additional, related claim arising after April 25, 1996, in such a case. Recipients shall account for awards of attorneys' fees from cases filed prior to April 26, 1996 in accordance with 45 CFR § 1642.5. ~~See Appendix VIII.~~

Note: On December 16, 2009, President Barack Obama signed into law the FY 2010 consolidated appropriations bill that provides funding for LSC. The legislation lifts the statutory restriction on claiming, collecting and retaining attorneys' fees but the regulatory restriction in Part 1642 of the LSC regulations remains in place until the LSC Board revokes or revises it. However, at the December 15, 2009 LSC Board of Directors meeting, in anticipation of the enactment of the consolidated appropriations bill, the Board directed LSC management to suspend enforcement of Part 1642 effective as of the date that the bill was signed by the President and became law. An ***Interim Guidance on Attorneys' Fees*** was issued by LSC on December 17, 2009 suspending the enforcement of Part 1642. Thereafter, at its January 30, 2010 meeting the LSC Board of Directors voted to issue an interim final rule to eliminate the regulatory restriction on claiming, collection and retention of attorneys' fees. The interim final rule will become effective thirty days after publication in the Federal Register. Enforcement of the current rule remains suspended. It should be noted that the requirements providing for the accounting for and use of attorneys' fees (currently found at 45 CFR Part 1642.5) will remain in effect.

2-2.7 DERIVATIVE INCOME

LSC considers derivative income as any additional income derived from an LSC grant, such as interest income, rent or the like, or that portion of any reimbursement or recovery of direct payments to attorneys, proceeds from the sale of assets, or other compensation or income attributable to any Corporation grant. Income derived from publications and from fundraising is not considered LSC derivative income.[3] LSC derivative income must be reported in the same class of net assets that includes the LSC grant.

2-2.8 NET ASSETS

LSC policy regarding the use of temporarily restricted net LSC assets (fund balances) carried over from one grant year to the next ~~are~~ is governed by 45 CFR Part 1628. Recipients are allowed to carryover a fund balance of up to 10% of their LSC support from one year to the next. (See 45 CFR § 1628.3) In special circumstances, a recipient may request a waiver to retain a fund balance of up to 25% of their LSC support. A waiver to retain a fund balance in excess of 25% is available only in the extraordinary circumstances of when the receipient receives an insurance reimbursement, the proceeds from the sale of real property, or a payment from a lawsuit where the recipient was a party. In the absence of a waiver, a fund balance in excess of 10% must be repaid to LSC. Carryover LSC funds are required to be expended prior to the expenditure of current grant funds awarded for the same purposes on a first in, first out basis.

Should expenses during a period exceed support, LSC is not obligated to fund the deficit. The deficit should be charged to other funds that are available to the program. However, LSC retains the discretion to allow deficits to be carried over in a statement of net LSC assets and be absorbed during future periods. See 45 CFR §1628.5. ~~See Appendix VIII.~~

2-2.9 SUBGRANTS

Recipients may, with LSC prior approval, delegate LSC funds by grant or contract to a subrecipient such as a bar association or another legal services program to carry out specified program activities. The subgranting of LSC funds, the recipient's responsibility for subgranted LSC funds and the proper financial statement reporting of a subgrant are governed by 45 CFR Part 1627. The subgrant or contract with the subrecipient should specify financial reporting responsibility. Where a relationship with a subrecipient exists, the notes to the financial statements of the recipient and subrecipient should fully disclose the nature of that relationship. (See Appendix I.2)

2-3 FINANCIAL MANAGEMENT: EXPENDITURES AND LIABILITIES

2-3.1 GRANT AND CONTRACT COSTS

LSC regulation 45 CFR Part 1630 provides uniform standards governing the allowability and allocability of costs charged to LSC grants and contracts, and also provides a comprehensive, fair, timely, and flexible process for the resolution of questioned costs incurred by LSC recipients. Recipients should review this regulation when considering whether a cost can be charged to an LSC grant or contract.

[3] See Supplementary Information to the publication of 45 CFR § 1630 as a final rule, 62 Federal Register 68220, (December 31, 1997.)

~~In general, m~~ Many sections of Part 1630, and many of its terms, are patterned after or specifically incorporate ~~–~~the provisions of OMB circulars. For example, Attachment B to OMB Circular A-122 Cost Principles for Non-Profit Organizations (see: http://www.whitehouse.gov/omb/circulars_a122_2004/) provides principles to be applied in establishing the allowability of certain items of cost. It is in Attachment B to A-122 that it is made clear that the costs of alcohol are not allowable as a charge to federal funds, a rule which LSC has adapted for LSC funds.

Additional cost allocation and financial management information is provided in LSC Program Letters. (See LSC Program Letter 08-02 on Fiscal Management and the Use of LSC Funds dated March 20, 2008, Program Letter 08-03 on Compliance Guidance dated December 18, 2008, and Program Letter 09-03 on Compliance Guidance and Interim Guidance on Attorneys' Fees dated December 17, 2009.)

~~However,~~ LSC's statutory provisions, rules, regulations, guidelines, program letters and instructions, including this Accounting Guide, are the primary sources of LSC cost principles, and OMB circulars provide guidance as to LSC's cost principles only to the degree that they are not inconsistent with relevant LSC policies or criteria. See 45 CFR § 1630.~~4(g).~~3(i)

2-3.2 COST ALLOCATION

LSC anticipates that recipients receiving funds from multiple sources will incur expenses (e.g., salaries, space, travel) which support work performed under more than one grant, contract, or other funding agreement. Such common costs should be allocated among the funds on the basis agreed to by the applicable organization. LSC's rules regarding allocations among funds are set forth in 45 CFR Part 1630.

2-3.3 EMPLOYEE BENEFITS

The accounting for employee benefits should follow the accrual method of accounting, which requires that the expense and liability associated with the benefits that have vested with the employee be recorded currently. This procedure is required for financial statements prepared in accordance with GAAP. An example of a benefit with year-end accrual would be vacation leave earned by employees and vested, but not taken (FASB ASC 710 Compensation – General (Statement No. 43). ~~– Compensated Absences).~~ In addition, there should be a note to the financial statements that discloses the amount of the liability for vested employee benefits at the financial statement date. LSC also recommends consultation with the recipient's auditor in this area.

2-3.4 PRIVATE ATTORNEY EXPENDITURES

LSC policy regarding expenditures for private attorney involvement (PAI) is set forth in 45 CFR Part 1614. See Appendix VIII.

For financial reporting of PAI activity, support and expenses related to the effort must be reported separately in the recipient's annual financial statements. This may be done by providing a separate schedule or column in the financial statement reporting on grant activity or a note to the financial statements that accounts for the entire PAI allocation.

Accounting for judicare payments should follow the accrual method of accounting, which requires that the expenses and liabilities associated with judicare cases be recognized during the period in which the services are rendered by the participating attorney, rather than when the case is assigned to the attorney. Although programs are encouraged to develop encumbrance systems to control and account for adequately judicare cases, the actual expense for judicare payments must be determined under the accrual method.

Encumbrances or reserves should be disclosed in the notes to the financial statements as commitments of the program. LSC recommends consultation with recipient's auditor for the proper reporting of contingencies under GAAP.(See Appendix I.2)

2-3.5 RESTRICTIONS ON EXPENDITURES OF PUBLIC, PRIVATE AND TRIBAL FUNDS

The applicability of restrictions on the use of LSC funds to a recipient's use of funds from public, private and tribal sources is set forth in 45 CFR Part 1610. ~~See Appendix VIII.~~

2-4 FINANCIAL REPORTING

2-4.1 OVERVIEW

This section discusses the recipient's external financial reporting requirements in accordance with GAAP, specifically, ~~the~~ FASB ASC 958.205, 210, 225, 230 Presentation of Financial Statements, Balance Sheet, Income Statement & Statement of Cash Flows (Statement No. 117). -- ~~Financial Statements for Not-for-Profit Organizations.~~

Most LSC recipients are funded by a variety of funding sources, some of which require a separate reporting of how their funds were utilized in the recipient's operations. LSC requires separate reporting of its grants or contracts in a recipient's financial statements. LSC ~~prefers and recommends~~ requires that a supplemental schedule of LSC grant activity be provided, which reports grant activity by expense category, net asset balance(s) and is reconcilable to grant award information disclosed in the financial statements and LSC records.

Most federally-funded grants or contracts and some privately funded awards include this requirement. If unclear, the recipient should resolve this issue with the appropriate officials from the funding sources. The recipient should attempt to include all funds from funding sources that do not have a separate reporting in a single temporarily restricted class of net assets or unrestricted class of net assets depending on the circumstances.

LSC requires that a recipient's financial statements be prepared in accordance with this Accounting Guide and GAAP and include the entire financial resources of the recipient, including all non-LSC funds. This provision is consistent with the Federal Government's emphasis on conducting organization-wide audits. The provision for full disclosure allows LSC and others to assess and evaluate the total legal assistance effort being provided by recipients.

This requirement means that the recipient's accounting records must accommodate the accumulating and supporting of costs by grant and contract. An LSC recipient's accounting records maintained on a fund accounting basis should provide an adequate basis upon which to prepare its annual financial statements.

2-4.2 ANNUAL FINANCIAL STATEMENTS

GAAP, in FASB ASC 958.205 Presentation of Financial Statements (Statement No. 117), requires not-for-profit organizations to present, at a minimum, aggregated financial data for total assets, total liabilities, total net assets (excess of assets over liabilities - similar to fund balances), and total change in net assets. Within the classes of net assets, only donor-restricted revenue, net assets by class, and change in net assets by class must be shown, but recipients are free to present additional disaggregated data.

Financial statements submitted to LSC must comply with GAAP. LSC ~~prefers and recommends~~ requires that its recipients report their LSC grant activity in a supplemental schedule to annual audited financial statements, if not separately reported in the basic financial statements.

Functional expense reporting: FASB ASC 958.205 (Statement No. 117) requires the Statement of Activity for all not-for-profit organizations to report expenses by functional classification, such as program services and supporting activities, or by natural classification provided that functional classification of expenses is provided in a separate schedule or note to the financial statements.

~~Supporting activities include both management and general, and fundraising expenses.~~ For LSC recipients, "program services" are activities that result in delivering legal assistance to eligible clients which is the purpose(s) or mission for which the program exists, and include both cases and matters. "Supporting activities" are all activities of a not-for-profit organization other than program services. See 45 CFR Part 1635. ~~See Appendix VIII.~~ Supporting activities include both management and general, and fundraising expenses. These terms are defined in 45 CFR Part 1635 -- Timekeeping Requirements.

LSC ~~prefers and recommends~~ requires that its recipients report expenses of LSC funds in natural categories of expense in a supplemental schedule to the financial statements, if not separately reported on the statement of activities.

Recipients may exercise their judgment in determining whether all program services should be reported together or whether their activities can better be presented, pursuant to FASB ASC 958.205 (Statement No. 117), through reports of two or more types of program services.

Classes of Net Assets Subdivided: The requirement to disclose the aggregate of the net assets of each of the three classes does not preclude subdividing any or all of the net assets amounts into two or more subcategories. However, where this is done, these subcategories must be aggregated to show the total net assets of that class. LSC's net asset balance may be disclosed separately on the Statement of Financial Position and in agreement with the amount(s) shown on the Statement of Activity or in a supplemental schedule which shows LSC grant activity, i.e., grant support and revenue, expenses and the resulting net asset balance, if any.

Some not-for-profit organizations choose to segregate their fixed assets in a separate fixed asset category. The resources that are used to purchase such fixed assets can be both restricted and unrestricted. FASB ASC 958.205 (Statement No. 117) does require that all net assets amounts be categorized into one of the three classes. LSC recommends consultation with the recipient's auditor with respect to the proper financial statement reporting of property under GAAP. The notes to the financial statements should disclose property purchased with LSC and non-LSC funds. (See Appendix I.2)

Total of All Classes: LSC requires recipients to display a "Total of all classes" column in the financial statements where a multi-column presentation is shown. Care must be taken to assure that all appropriate disclosures are made either in the net assets section or in the notes to the financial statements, to make certain the captions are not misleading.

Sample financial statements, illustrating formats that contain the disclosures required by FASB ASC 958.25 (Statement No. 117), and in a supplemental schedule reporting LSC grant activity are shown in Appendix I.

2-4.3 FISCAL YEAR-END

LSC will normally fund each recipient on a calendar-year basis, but a recipient's fiscal year-end need not be the same as LSC's grant year. Changes in a recipient's fiscal year-end require prior written notification to both the LSC Office of Program Operations and the LSC Office of Inspector General.

2-5 ACCOUNTING RECORDS

This section describes the accounting records that shall be maintained by each recipient. In general, accounting records shall be maintained on a double-entry basis using fund accounting and must be adequate to enable a recipient to prepare its annual financial statements, internal reports, and other management reports.

A recipient's accounting records ~~can~~ should be maintained ~~by either a manual or~~ on an automated system. Each recipient should establish the system most appropriate to its needs and provide an adequate audit trail for all transactions.

At a minimum, a recipient's accounting records should consist of a General Ledger, Cash Receipts Journal, Cash Disbursements Journal, General Journal/Journal Voucher, Client Trust Records, Payroll Records, and Property Records. See Appendix II for the types and descriptions of accounting records a recipient should maintain and retention times for records of not-for-profit organizations.

CHAPTER 3 - INTERNAL CONTROL/FUNDAMENTAL CRITERIA OF AN ACCOUNTING AND FINANCIAL REPORTING SYSTEM

An LSC recipient, under the direction of its board of directors, is required to establish and maintain adequate accounting records and internal control procedures. Internal control is defined as the process put in place by the recipient's board of directors, management, and other personnel which is designed to provide reasonable assurance of achieving the following objectives:

1. safeguarding of assets against unauthorized use or disposition;
2. reliability of financial information and reporting; and
3. compliance with regulations and laws that have a direct and material effect on the program.

A financial statement audit will not prevent defalcations, nor will it provide for all the financial information needs of management. It is not intended for those specific purposes. Each program must rely instead upon its own system of internal accounting controls and procedures to address these concerns. This chapter discusses the Fundamental Criteria of an Accounting and Financial Reporting system with which recipients must comply to demonstrate effective discharge of stewardship responsibilities.

3-1 DEFINITION

The Fundamental Criteria encompass the coordinated methods and measures that should be adopted by recipients of any size to safeguard assets, check the accuracy and re liability of accounting data, promote operating efficiency, and encourage adherence to prescribed management policies. Variations from this model should only be made when justified by particular program characteristics. The Fundamental Criteria emphasize the results to be achieved. However, there can be substantial flexibility in the methods implemented to achieve the required results.

3-2 OBJECTIVES

1. The Fundamental Criteria are intended to provide criteria which allow a nonfinancial manager to assess whether the system for which he or she is responsible reduces inherent financial management risks sufficiently to demonstrate the proper discharge of his/her stewardship responsibilities.
2. In addition, the Fundamental Criteria are intended to provide standards which allow program personnel to evaluate performance in the financial area in accordance with consistent criteria, and to make improvements, as needed.

3-3 CHARACTERISTICS

In establishing an adequate system of internal control, certain basic concepts must be considered recognizing that each recipient is unique, and, therefore, any control procedures must likewise be unique and "custom made."

3-4 INTERNAL CONTROL STRUCTURE

In establishing an adequate internal control structure, the following items must be considered:

1. Competent Personnel: Each recipient must have adequately trained, competent accounting personnel to properly document, record, account for, and report financial transactions.

2. Definition of Duties and Responsibilities: The duties and responsibilities of all recipient personnel must be detailed in written job descriptions. Job descriptions for accounting personnel must specify, at a minimum, those individuals who, for example, approve invoices for payment, prepare grant and contract reports, maintain accounting records, prepare management reports.

3. Segregation of Duties: Accounting duties should be segregated to ensure that no individual simultaneously has both the physical control and the record keeping responsibility for any asset, including, but not limited to, cash, client deposits, supplies and property. Duties must b e segregated so that no individual can initiate, execute, and record a transaction without a second independent individual being involved in the process.

4. Establishment of Independent Checks and Proofs: Recipients must establish independent checks and proofs consisting of regular internal verification of the recording of transactions and on the preparation of financial reports.

5. Establishment of an Accounting Manual: Each recipient must develop a written accounting manual that describes the specific procedures to be followed by the recipient in complying with the Fundamental Criteria.

6. COSO Considerations: Risk assessment, information and communication, and monitoring. (see 3-5, below.)

LSC recommends consultation with recipient's auditor in determining and establishing appropriate levels of internal controls within the recipient's organizational size and structure.

3-5 FUNDAMENTAL CRITERIA

The ~~Fundamental Criteria~~ LSC Fundamental Criteria is a listing ~~described in this section is a codification~~ of the elements of an adequate accounting and financial reporting system. Compliance with the Fundamental Criteria can assist recipient boards with their fiduciary and stewardship obligations and may reduce the possibility of serious ethical, financial and compliance breaches. Good internal controls can improve the effectiveness of the recipient's operations, the reliability of grantee financial information, compliance with laws and regulations and the safeguarding of assets. ~~set forth below reduces the possibility of a recipient experiencing serious financial difficulties~~ .

A 1992 report entitled *Internal Control – An Integrated Framework* by the Committee of Sponsoring Organizations (COSO) and the 2002 Sarbanes Oxley Legislation have highlighted the importance of corporate responsibility, governance and effective internal controls. The COSO report identifies five critical and interrelated internal control components and it further states that "although these basic components apply to all entities, small and mid-size companies may implement them differently than larger ones". While the COSO report acknowledged that the formality and structure of internal control systems may vary based on an organization's size or other factors, it concludes that the following five components are universal and necessary.

1. Control Environment (integrity, competence and ethical values)

2 .Risk Assessment (identification, evaluation and analysis of risks)

3. Control Activities (documented policies, procedures, authorizations and segregation of duties)

4. Information and Communication (information must be identified, captured, and timely communicated)

5. Monitoring (internal controls must be monitored and evaluated for quality and effectiveness

~~The "Risks" column illustrates some frequent difficulties which may result from a recipient having inadequate internal controls. At the same time the~~ The Fundamental Criteria below ~~described~~ incorporate these five critical components but are not intended to include all possible control methods, or to identify all potential risks resulting from internal control weaknesses. In 2004, an additional report was issued by COSO entitled Enterprise Risk Management – Integrated Framework, that expands on COSO's earlier internal control work and focuses on risk assessment and risk management in organizations. Appendix VII contains an accounting procedures and internal control checklist to be used as a guideline by recipient's management in developing or improving accounting systems and internal control procedures.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.1 <u>CONTROL, ROLES AND RESPONSIBILITIES</u>			
Financial Planning and Control	Each recipient must formally enunciate a financial philosophy in its accounting manual. This manual shall govern the overall financial planning and control function of management.		
Define and Communicate Roles and Responsibilities	The appropriate roles of the governing body and management must be defined in the accounting manual. The flow of authority and responsibility from the governing body to top management and to successively lower levels of management must be identified clearly and communicated to relevant personnel.	A recipient's governing body should use bylaws and resolutions to define and communicate its own authority and responsibility and what is delegated to top management. Similarly, top management should use organization charts, job descriptions, policy statements, and other techniques to define and communicate the authority and responsibilities of lower personnel. Plans (goals and priorities and budgets), should also be used to define and communicate the objectives of and limitations on individual activities. Merely defining authority and responsibility does not, in and of itself, discharge the responsibility of the financial planning and control function. In addition: - Job responsibilities must be communicated to personnel who need to know; and -Techniques must be devised to provide reasonable assurance that the criteria are observed in day-to-day operators.	Unless authority and responsibilities are clearly defined, an organization may be misdirected. A misdirected organization is unlikely to achieve success in controlling fiscal duties and responsibilities or achieving its objectives. A failure to identify proper roles and responsibilities will result in transactions, adjustments and journal entries that (1) are not in accordance with management criteria, (2) are not processed or are processed late, or (3) are processed in a careless manner.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Be Explicit	Communications of authority should be explicit and, to the extent possible, should be in writing.	Explicit communications of authority are most often found in bylaws, resolutions, policy and procedures statements.	Implicit, unwritten delegations of authority and "understood" criteria often lead to misunderstandings and less than efficient operations.
Financial Controls	Financial controls shall be established to safeguard program resources.	The financial authority of supervisory personnel should be clearly defined and evidenced by: -Established policies for processing, recording and reporting financial transactions; -Documentation identifying the authority delegated to supervisory and other personnel to initiate and approve financial transactions; and -Criteria to be used when modifying or eliminating the above procedures.	Without adequate controls and definitions of responsibilities: - Projects or other transactions may be initiated that violate management intentions, or legal or grant restrictions; - Resources may be wasted on duplicative efforts or used for unauthorized purposes; and - A negative attitude toward internal accounting controls may develop within the recipient.
Translate Goals into Financial Terms	Goals and priorities translated into financial terms should be established.	At a minimum, the translation of goals and priorities into financial terms is represented by a budget. The annual budget of the program should be approved by the program's governing body or its finance/audit committee, reviewed in detail by the finance/audit committee of the governing body, and reviewed and approved by the governing body as a whole.	Without careful planning that relates goals and priorities to the financial resources available, the fiscal integrity of the recipient and essential program goals may be jeopardized.
Analyze effect of management decisions on fiscal operations	Analyze and assess the financial effect of management decisions before and after implementation.	Timely and accurate financial management reporting is essential in analyzing management decisions such as hiring additional staff, opening or closing offices, expanding or retrenching service areas, etc.	Without adequate financial management reports, management may commit resources to activities or services which it cannot afford. The resulting deficit in operations could adversely effect the provision of services.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.2 ANNUAL FINANCIAL STATEMENTS AND AUDIT REPORTS			
(a) ANNUAL AUDIT: LSC's Audit Guide	The annual audit of the financial statements should be performed in accordance with LSC's Audit Guide for Recipients and Auditors and OMB Circular A-133.	Review the annual audit report and any audit related correspondence from LSC.	Without an annual audit in conformity with the LSC Audit Guide, significant audit problems may remain undisclosed and adversely effect proper discharge of the fiduciary responsibilities of the governing body.
Time of Reporting	The audit report should be submitted to LSC in accordance with the LSC Audit Guide. Under extraordinary circumstances, written extensions may be granted by LSC's OIG.	Review the recipient's history of timely submission of audit reports, and the reason(s) for any untimely submissions.	Consistently delinquent audit reports may indicate a serious problem with management effectiveness or accounting procedures.
Management Letter	The audit report should be accompanied by the auditor's management letter.	Review the management letter and the corrective action recommended.	While a recipient may receive a "clean opinion" from the auditor, there are often many areas in which the auditor can make suggestions for improved financial control. The management letter provides the forum for such comments. System deficiencies may not be materially significant now; but if not corrected could become significant in the future.
(b) GOVERNING BODY: Financial Oversight Committee(s)	Each recipient's governing body shall appoint/elect a financial oversight committee(s) and identify the duties of the committee(s) in writing.	Insure that the duties of the finance and audit committee(s) are documented in writing. Insure that the financial oversight committee(s) meets regularly.	The absence of a financial oversight committee(s) deprives the governing body of the use of one of the most effective tools available to assist in the proper discharge of its fiduciary responsibilities.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Approval of Auditors	The governing body should approve the appointment of the auditors.	Review the manner in which an auditor is selected.	Auditors report to the individual or body that hires them. Management should not be the sole source in the control of reporting on the financial performance of its programs since LSC and interested third parties customarily rely on the auditors.
Exit Conference	The governing body minutes should reflect that the annual audit report and auditor's management letter were discussed with governing body members, management and the auditors, and deficiencies, if any, were satisfactorily addressed.	A review of the documentation on the exit conference should include a discussion of significant weaknesses, if any, and corrective action prescribed by the governing body.	The failure to have an exit conference with management and the governing body or its audit committee deprives the auditor and program personnel of the opportunities to obtain additional information to improve operations.
Minutes	The governing body shall have policies defining appropriate parameters for fundamental financial decisions. All financial decisions within these parameters should be recorded in the minutes. Appropriate parameters should be sufficient to ensure that the financial operations are discharged adequately.	Minutes should record financial decisions made and/or approved by the governing body.	Lack of documentation in the minutes may result in inadequate communication to management. In addition, it will be difficult to later demonstrate that the governing body had adequately discharged its fiduciary responsibilities.
(c) AUTHORIZATION BY THE GOVERNING BODY: Bank Accounts	Each bank account shall be authorized by the recipient's governing body. There should be sufficient justification for using more than one operating bank account. Any account not used should be closed promptly, and the bank should be notified in writing not to process any subsequent transactions. Any remaining blank checks for closed accounts should be destroyed promptly.	Governing body minutes should reflect governing body approval of new bank accounts, and ratification of bank accounts which have been closed. Relevant state escheat laws should be reviewed.	Dormant bank accounts provide greater opportunities for individuals to fraudulently disburse cash and cover the disbursements in the records.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Check Signing	All check signers should be designated by the governing body. Authorized check signers who are no longer with the program should have their authorization to sign checks canceled promptly on the bank(s) records.	Governing body minutes should reflect the designation of authorized check signers. A log should be kept of all persons authorized to sign checks. This should be updated as people are added or deleted and the date the bank was notified indicated beside the name.	Checks may be fraudulently issued with signatures that are no longer or never were authorized.
<u>(d) RECONCILIATIONS:</u> <u>Monthly</u>	Bank statements shall be reconciled monthly to the general ledger by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties.	Reconciliation procedures shall be documented to ensure timeliness and accuracy.	Proper reconciliation procedures will substantially increase the likelihood of irregular disbursements and recording errors being discovered on a timely basis. The reconciliation procedure is a fundamental control technique and failure to use it may be interpreted as negligence, especially in an environment where full segregation of duties is not practicable.
Documentation	The reconciliation shall be reviewed and approved by a responsible individual. Such review shall be appropriately documented by signature and date.	Review the monthly bank reconciliation(s) with regard to the following: -Has a reconciliation been prepared for each bank account? -Is the reconciliation assigned to someone with no bookkeeping duties? -Is the person reviewing and approving the reconciliation doing so effectively? -Is the review and approval documented on the reconciliation sheet? -Is the nature and amount of reconciled items clearly indicated on the reconciliation sheet?	

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Adjustments	All required adjustments to the general ledger cash account identified through the reconciliation procedure should be recorded in the general journal and promptly posted to the general ledger.	Determine that adjustments to the cash account which have been identified on the reconciliations have been properly posted to the general journal and general ledger.	
3-5.4 CASH RECEIPTS			
INITIAL CONTROL Accountability	Initial accountability for cash should be established as soon as a cash item is received. This responsibility should be assigned to a person with no other bookkeeping duties.	Non-accounting individuals should be assigned to receive and record cash receipts. This is the most fundamental safeguard in protecting against irregularities.	The major risk in this area occurs when an individual with record-keeping responsibilities is also responsible for establishing the initial accountability for cash. Such an individual could cash a check or money order and then adjust the records to cover irregularities.
Mail	Accountability should begin with the individual opening the mail.	The mail should be opened by a person with no other bookkeeping duties, when possible.	If cash is received at more than one location, risk is increased.
Endorsement	The checks should be restrictively endorsed by the individual opening the mail.	The endorsement should be stamped on the check.	Checks not endorsed or endorsed with no restriction can be cashed by unauthorized individuals.
Cash Receipts Log	Each receipt should be recorded in a log by the person opening the mail.	The cash receipts log should list the amount and payor for each check or other cash item received.	Absence of a listing precludes a double check that all cash receipts were recorded and deposited on a timely basis.
Deposit	All receipts should be deposited at least once a week (daily when possible).	Review deposit slips to monitor the frequency and timeliness of deposits.	Undeposited items risk being lost or misappropriated.
Accounting Record: Source and Purpose	The accounting records should adequately identify all cash receipts as to source and purpose.	Review the receipts journal to determine that both the source and purpose of cash receipts are clearly identified.	Lack of control over cash means it may go unrecorded and ~~Undeposited~~ undeposited.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Receipt to Deposit	Fiscal records should allow an individual to trace the receipt from initial listing to the deposit in the bank account to the general ledger posting.	Trace cash receipts from the initial listings through the cash receipts record to the general ledger. If a reviewer is unable to do this, the system is inadequate.	Inadequate recordkeeping may allow deposits to go unrecorded in the appropriate ledgers. This may result in inaccurate financial statements and management reports.
3-5.4 CASH DISBURSEMENTS			
(a) MANAGING PURCHASES: Purchase Approvals	Approval should be required at an appropriate level of management before a commitment of resources is made.	Criteria for purchases should be documented along with appropriate procedures.	Failure to follow the purchase approval process may result in purchases made without the knowledge of appropriate management or at unacceptable prices or terms.
Invoice and Receipt Verification	The receipt of goods and the accuracy of invoices should be verified and documented.	Prenumbered and controlled receiving documents, a receiving log, or a receipt verification on the invoice should document that goods and services were actually received. Verification procedures to validate, among other things, vendor numbers, quantities, and amounts should be reviewed.	Without adequate internal verification, cash may be disbursed for goods and services not received, in advance of receipt, or in the wrong amount.
Control over Duplicate Payments	Documents should be marked paid or otherwise canceled to avoid duplicate payment. The check number and pay date should also be noted on the invoice or other supporting documentation.	Procedures for preparing, voiding, safeguarding, or otherwise canceling source documentation to prevent reuse (e.g., vouchers, invoices, and adjustment forms) should be established.	Inadequate document control may result in duplicate payments.
(b) CHECK PREPARATION: Prenumbered	All disbursements (other than petty cash) should be made by pre-numbered checks.	A review of the existence and consecutive use of pre-numbered checks should be conducted.	Without prenumbered checks, cash may be improperly disbursed or recorded.
Authorized Signature	All checks should be signed by an individual(s) authorized by the governing body.		Failure to adhere to the check signing authorizations may result in unauthorized disbursements.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Payees	No checks may be made payable to cash. Generally, checks should not be made payable to employees except expense reimbursements and payroll checks. There should be a written prohibition against signing blank checks.	Samples of actual canceled checks should be reviewed to determine that the payee has not been altered and that endorsements are consistent with the approved use.	Checks made payable to cash are not adequately identified with the person cashing the check. A check to "cash" is negotiable and therefore does not protect against the improper cashing of a lost or misplaced check.
(c) RECORDKEEPING: Disbursements Journal/Voucher Register	An effective method shall be established to initially record and categorize disbursements and then summarize them for recording in the general ledger.	Review the cash disbursements journal or other methods used to initially record checks or purchases with regard to the following: -Are disbursements organized to allow for a summary expense category? -Are disbursements posted to the general ledger on a current basis, i.e., monthly? -Are all checks listed in numerical sequence including voided checks? -Do the subsidiary records agree with the posting to the general ledger?	An ineffective method for initially recording disbursements may adversely affect the ability to accurately report to management on actual expenses.
Disbursement Filing System	An organized method shall be established to accumulate and file all documents relating to a particular disbursement for future reference.	Select a sample of disbursement checks and trace them to their source documents. Are the supporting documents contained in the files?	Improper filing of source documents could result in unauthorized disbursements.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Property Record	Property purchases should be recorded in a property subsidiary record. The property record should include: - description of the property - date acquired - check number - original cost - fair value (if donated) - method of valuation (if donated) - salvage value, if any - funding source - estimated life - depreciation method - identification number - location The property subsidiary record must agree with the general ledger property accounts.	Have the detailed property records been added and reconciled to the general ledger control accounts? Did the totals agree? Were any differences reconciled and adjusted?	Failure to maintain adequate property records may result in the inability to fully account for fixed asset purchases, and to support depreciation amounts and property asset balances.
Petty Cash	Petty cash funds should be maintained on an impress basis and recorded in the general ledger.	Review petty cash reimbursements periodically to ensure required procedures are being followed. Occasional surprise counts greatly reduce the opportunities for misuse of petty cash.	Without management review and control the petty cash account is readily subject to misuse.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
(d) REVIEW OF DISBURSEMENT PROCEDURES		Review a sample of cash disbursement checks, including, among others, those with large amounts, round dollar amounts, unfamiliar vendors, payments to employees, and board members. -Are the checks supported by adequate documentation? -Is there documentation on the invoice indicating that it was checked? -Was the item purchased in accordance with procedures? Namely, is there documentation of who initiated and who approved the purchase? -Was evidence of the receipt of goods or services noted? -Was the invoice canceled? -Was it posted to the appropriate general ledger account to which it was coded? -Was the supporting documentation contained in the files?	

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3.5.5 PAYROLL			
(a) RECORDS: Payroll Register	The payroll register should list all payments to employees by name, check number, gross pay, withholdings, and net pay.	Review the payroll register for content and accuracy. Also obtain the latest quarterly withholding reports from the federal and state authorities to determine that they were filed on time and that taxes were withheld properly.	The lack of an adequate payroll register mau result in: -Unauthorized amounts withheld from employees; -Employees being paid unauthorized amounts; -Improper tax withholding; and -Employees being paid for days not worked.
Attendance Record or Time Record	An attendance record or time record shall be maintained for each employee and shall be approved by the employees supervisor.	Review time and attendance records to determine if they have been properly approved by supervisory personnel and that salary payments correspond to hours reported.	Employee may be paid for days or hours not worked.
Vacation and Sick Leave and Overtime Compensatory Time	A record of vacation and sick leave time and overtime/compensatory time shall be maintained for each employee. It should include the time accrued and taken and the available balance.	A review of several employees' personnel files will indicate the adequacy of records maintained.	Inadequate records may result in an employee receiving unauthorized leave and/or payments.
Individual Earnings	A record of cumulative individual earnings and withholding amounts shall be maintained for each person.		Recording every payroll transaction on an individual earnings record will assist in preventing duplicate payments.
Payroll Records	Each employee shall have a payroll/personnel file which includes, among other things, documentation concerning appointments, position reclassifications, salary information, evaluations, promotions, and terminations.	To determine if salary changes are properly authorized and justified, examine an employee's payroll/personnel file to determine if proper authorizations exist for the pay rate indicated on the payroll register.	Unauthorized adjustments may be processed to increase or decrease amounts paid to one or more employees.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Labor Distribution	A record documenting charges of gross payroll expenses to accounts/funds/cost centers shall be maintained.	A payroll register should be maintained. The distribution of the gross pay for one pay period should be reviewed. Specifically, the following should be ensured. -There should be an efficient method for summarizing the charges to the appropriate expense accounts. The distribution should be on a standard journal entry form. -The distribution record should tie directly to the general ledger accounts. -The format should accommodate both fund and cost center accounting.	Inadequate labor distribution records may result in the improper allocation of payroll costs to funding sources.
(b) CONTROLLING PAYMENTS: Approvals	Salary and wage rates should be approved in writing by an authorized individual. Procedures must be adequate to provide that employees are paid in accordance with approved wage and salary plans.	Review the wage and salary plan. It should document the following: -Authorized rates or salary ranges by employee group, experience, etc.; -Frequency of payment; -Overtime policies, rates to be paid, etc.; -Eligibility for benefits and limits; -Benefit costs to be paid by employee; and -Policies related to employee advances and expense reimbursements.	Failure to approve or the absence of an appropriate wage and salary plan may result in: -Unauthorized payroll adjustments; -Excessive payroll adjustments; -Violation of minimum wage laws, union contracts, etc.; and -Uncollectible advances.
Adjustments	Any adjustments to payroll disbursements should be approved by an authorized individual independent of payroll preparation.	The wage and salary plan should contain a clear statement of criteria or policy related to payroll adjustments.	Failure to approve adjustments may result in unauthorized disbursements.
Check Signing	Payroll checks should be signed by persons independent of payroll preparation.	Review the canceled payroll checks for the prior month and verify that the person signing the checks had no part in preparing the payroll.	Lack of segregation of payroll duties provides opportunities for major and ongoing defalcations

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Imprest Bank Account	Payrolls should be disbursed from an imprest bank account restricted for that purpose. Deposits to the payroll account should be controlled by an authorizing procedure which prevents duplicate deposits and over deposits.	Verify that there is a separate payroll bank account. Review the policies for cash deposits, withdrawals, and check preparation and ensure that they are understood and followed by responsible employees.	The lack of an imprest payroll account can facilitate unauthorized payroll transactions. Failure to control deposits as well as disbursements provides opportunities for defalcation.
Gross to Net to Employee	Employees should be furnished information on their gross earnings with their payroll checks.	The format for furnishing employees their payroll information should include an identification of each deduction.	Review of an employee's pay stub decreases the possibility for unauthorized deductions.
(c) TAX LAW Quarterly Withholding Report	Proper withholding and prompt payment of applicable federal, state and local income and payroll taxes should be evidenced by the quarterly withholding reports (Form 941).	Obtain the latest quarterly withholding reports for federal and state taxes to determine that they were filed on time and paid correctly.	A failure to collect and report tax withholdings in a timely manner may result in violation of law, fines and penalties.
3.5-6 <u>GENERAL JOURNAL</u>	There should be no direct entries to the general ledger. Every entry to the general ledger not originating from the cash receipts journal, payroll register/ labor distributions, cash disbursements journal or client trust subsidiary records or any other subsidiary record of original entry should initially be posted to the general journal.	Review the general journal for the criteria listed.	Posting of entries directly to the general ledger increases the possibility of inappropriate, unauthorized or unsupported entries.
Documentation	Each entry to the general journal should be: - fully described; - adequately documented; - sequentially numbered; and - approved by an authorized individual.	Examine the general ledger to ensure that all entries are referenced to where they originated. Examine the supporting documentation for several general journal entries for several different months. Verify that all entries were made consistent with the criteria.	Unsupported or poorly referenced entries are difficult to trace and make it difficult to detect irregularities, and may increase audit costs. Incomplete, inaccurate, or unsupported entries to the general ledger increase the possibility that the financial data may misrepresent the actual financial position of the recipient.
3-5.7 <u>CLIENT TRUST RECORDS</u> **(a) INDIVIDUAL BALANCE**	Each program shall establish a method to determine the balance for each client's account.	Review the client trust ledger cards or records to determine that individual client balances are maintained.	Accurate individual client trust balances as required by standards of professional legal practice are also essential in maintaining client and community relations.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
(b) GENERAL LEDGER CONTROL	The transactions of the client trust accounting system should be under general ledger control.	A recurring weakness, not always immediately obvious, is that although client funds are included in the general ledger, they may not be under general ledger control. Verify that the balance in the general ledger results from recording total receipts from clients and total disbursements for clients made during the month.	The legal profession is held to a high ethical standard of accountability when client funds are involved. Defaults, even if amounts involved are not material, with respect to the standard of accountability may subject the responsible attorney and the executive director to review by the local or state bar.
(c) RECONCILIATION	The total of the individual client funds held should be reconciled to the general ledger bank account balance and general ledger liability balance on a monthly basis.	Examine a monthly bank reconciliation in order to: -Determine that the individual client ledger cards have been added and agree with the bank reconciliation; -Trace the bank balance to the bank statement and book balance to the general ledger for one month; -Determine that any adjusting journal entries are properly supported; and -Determine how items that have been outstanding for over two months will be recorded and ultimately treated.	Delinquent or inaccurate reconciliation represents a lack of adequate control over financial transactions and increases the possibility that irregular transactions will be undetected, or accountability for client funds will be lost.
(d) DISBURSEMENTS: Separate Bank Account	A bank account shall be separately maintained for client funds. The controls over this account should be specific and clearly stated. Client funds may not be commingled with any other funds	Verify that a separate bank account is used and that the criteria and policies concerning its use are documented.	The high volume of client trust cash transactions increase the risk that client funds may be diverted.
Prenumbered Checks	Prenumbered checks should be used for disbursements.	Review the disbursement register for proper recording of all check numbers.	The absence of prenumbered checks can result in the loss of control over the checking account.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Adequate Documentation	Documentation supporting the reason for each disbursement shall be contained in the files.	The source documents for cash disbursements shall be the voucher copies of the check or the client trust cash disbursement book. Each client disbursement shall be supported by a request from the case attorney or other documentation that substantiates the propriety of the disbursement.	Inadequate documentation and approval can result in unauthorized disbursements.
(e) RECEIPTS Duplicate, Prenumbered	Prenumbered receipts shall be issued for all money received from clients. Accountability in the form of duplicate copies of the receipts issued should be maintained.	The source documents for receipts shall be the prenumbered client receipts. Specific persons shall be designated to issue receipts. Clients shall be advised of the individual who can receive cash. There shall also be documented procedures for receiving cash in and out of the office.	Failure to have prenumbered receipts can result in the misappropriation of client funds.
3-5.8 <u>GENERAL LEDGER</u>			
(a) PROCEDURES: Monthly	The general ledger shall be posted monthly.	Verify that there is a detailed closing schedule identifying due dates and the individuals responsible for various categories of journal entries.	Timely management reports are dependent upon a timely closing and reconciliation of errors.
Double-Entry Method	The general ledger should be maintained on a double-entry basis.	During the general ledger review determine that a double entry method is being used, and manual systems that all entries are made in ink.	Inadequate maintenance of the general ledger may weaken control over overall operations. Audit costs may also increase significantly.
(b) DESIGN: Fund Accounting/ Cost Center Accounting/ Functional Accounting	The general ledger design should accommodate fund accounting, and/or cost center accounting/ functional accounting and other financial requirements in accordance with the most expedient procedures in the circumstances. Fund accounting or cost center/functional accounting requirements (whichever are not incorporated into the general ledger) may be provided for outside of the general ledger.	Determine whether the general ledger and any subsystems are efficiently designed to accommodate fund accounting, and cost center/functional accounting.	The failure to fully incorporate fund accounting into the program's accounting system may result in an inability to document compliance with federal requirements. The reliability of management reports generated from sources other than the general ledger can be significantly impaired and the actual report preparation significantly more cumbersome.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
(c) CHART OF ACCOUNTS	The chart of accounts shall provide general ledger detail sufficient to easily generate needed management information.	Review the chart of accounts. It should be: -Documented with all valid accounts listed; and -Adequately detailed to provide needed management information. Procedures should also be established for requesting and approving changes in the chart of accounts.	A chart of accounts which lacks adequate detail can significantly increase the time necessary to review a particular situation, or compile needed information.
(d) CONTROL ELEMENTS: Monthly	A trial balance of the general ledger shall be prepared monthly, for both manual and computerized accounting systems.	Verify that a trial balance was prepared for each Month.	Without a monthly trial balance there is no assurance that the double-entry system is working effectively.
In Balance	Any out of balance condition should be identified and corrected.	Perform a detailed review of one trial balance and determine whether it balances and agrees with ledger accounts. Determine whether the balance is documented by an adding machine tape or other addition check.	Computerized accounting software designed to preclude out-of-balance entries may not be fully effective, and may be susceptible to circumvention by sufficiently knowledgeable personnel. If the books are not balanced: - Errors or omissions may go undetected; - The financial position may be erroneously presented; and - Management reports may be inaccurate.
Format	The trial balance should facilitate the preparation of management reports.	Assess whether the trial balance (or the general ledger) is designed so that all required reports could be drawn from it without need to refer to other records or perform other analyses to determine actual amounts.	
Kept on File	All trial balances shall be kept on file until the audit for that fiscal year has been completed and the audit report issued.	Review and verify that such a file is maintained.	Audit costs may increase.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.9 MANAGEMENT REPORTS			
(a) USE OF REPORTS Timeliness	The director should receive a monthly management report within a prescribed number of days after month-end.	Policies, procedures, and responsibilities for all report preparation should be determined and documented in an accounting manual. A reasonable time estimate should also be identified. Verify that the reports were completed each month and on a timely basis.	Untimely management reports may result in erroneous decision-making on the part of management and the Governing Body.
Program Director Review and Approval	The director should use the monthly management reports to ensure that all program resources are used efficiently and effectively.	Discuss with the program director his or her use of the reports.	Irregularities that may be revealed through the review of monthly management reports may disclose improper transactions or unanticipated costs which might otherwise go unnoticed.
(b) TYPE OF REPORTS: Total Program Budget vs. Actual	A cumulative comparison of total actual expenses against total budgeted expenses should be prepared. Variances both over and under should be identified on the face of the report.	Review this monthly management report to evaluate whether the report contains the information as described for comparison of totals against budget.	The lack of such reports may allow budgetary problems to continue unnoticed.
Funding Source Budget vs. Actual	Special reports by funding source designed to meet grantor and internal reporting requirements should be prepared as required.	The review should verify that all grantor reporting requirements are met.	The failure to comply with funding source requirements can result in a reduction or loss of funding.
Cost Center Budget vs. Actual (Optional)	The monthly reporting package may be designed to facilitate cost center reporting. Both budgeted expenses and actual expenses should be identified on each report. The ability to account for costs by functions can evolve from cost center reporting.	Determine if cost center reporting is being used and that all cost center requirements for management and grant reporting purposes are being met. If cost center reporting is not being used, document management's reasons and alternate procedures to maintain cost center budgetary control.	A consolidated report lacks the detail necessary for proper analysis and control of cost center or program spending.
(c) REPORT PREPARATION Financial System Design	The accounting and financial reporting system shall be designed to facilitate management report preparation.	Determine if the system is designed to be flexible enough to meet funding source reporting requirements.	The preparation of management and funding source reporting may be more costly when the financial system is poorly designed. However, regardless of the system design, the preparation of a report should be reviewed periodically.

2010 PROPOSED REVISIONS TO ACCOUNTING GUIDE FOR LSC RECIPIENTS

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Detail Available	The monthly management report should be sufficiently detailed.	If a detailed analysis of expense accounts is required to determine the reason for a significant over-expenditure of a budget category, the report may not be sufficiently detailed.	The lack of a detailed budget may result in unanticipated fund balances and deficits.
Commitments	A monthly management report should identify known commitments that would have a material effect on the amounts reflected in the reports.	The program should be cognizant of its future commitments.	The failure to identify known commitments on behalf of a program may result in the appearance of being under budget.
Allocations	Common expenses shall be allocated among the sources on the basis agreed to by the applicable funding organizations, and in the absence of approved methods the allocation should be fair, consistent, and in an equitable manner to the individual cost centers, and funds.	The allocation methodology should be reviewed and assessed as to whether it fairly represents the total cost of an activity.	The allocation of a cost to an activity must demonstrate the total cost of the activity that a funding source is financing.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.10 BUDGETING			
Process	The budgeting process should be organized, involve top management, and be closely tied to the goals and priority setting process of the recipient. The budget should be built from cost center/function and "rolled-up" to create the total budget. Schedules should document the assumptions made in arriving at the final cost center/functional budgets.	An overall evaluation of the budgeting area will require a review of the budget "process" as it relates to each of the criteria listed. The questions which should be answered include the following: -Did the budgeting process appear organized and effective? -Does the budget include carry-over funds or carry-over deficits? -Does the total "budget" or management report reflect funds expected to be received from all sources based upon the best information available? -Does the budget process and the accounting records accommodate the preparation of a budget by cost center, or does the recipient attempt to prepare a budget on a total program basis? -What is contained in detailed schedules that were used to develop the budget?	Budgeting and projecting are the key tools that should be utilized by management to adequately control and plan the expenditures of the program.
Format	The budget should be formatted to coincide with the format of the management reports. In addition, for budgeting purposes the chart of accounts should be sufficiently detailed to avoid extensive references to other sources of information or reclassification to determine the content of an account for budgeting or other management purposes.	-Is the budget based on cost center data? -Does the budget include all funds expected to be received during the fiscal year? -Are schedules available which identify the assumptions upon which the budget is based? -Are costs equitably allocated by source funds within cost centers? -Is the chart of accounts detailed enough to facilitate the budgeting process or does preparing a meaningful budget require extensive analysis of the accounts and reference to many other records?	

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.11 PROJECTIONS	Budget projections shall be set and monitored carefully.	The process of reviewing projections and budgeting are the same. Review the program's budget projections to assess the elements identified below.	
Quarterly	A report comparing actual expenses against projected expenditures should be made at least quarterly during the fiscal year. The report should include the following for each line item: (1) total budget; (2) actual expenditure to date; (3) projected expenses remaining; (4) projected total expenses for year (5) and projected variance over (under) budget.	-Are projections prepared on a quarterly basis? -If any of the management reports reveal a large variation from budget, is there any evidence that management has recognized and taken the necessary steps to resolve the variation.	Infrequent projections can weaken control over spending and result in budgetary problems.
Built from Cost Centers/Functions	The projections should be built from cost centers/functions.	-Are the projections built from cost centers/functions?	Projections made centrally without adequate input from the cost center manager may result in incomplete information and a distortion of the projected financial condition of the recipient.
Assumptions	The projections should be supported by schedules that document the assumptions used to arrive at the projected amount.	-Are projections supported? If so, trace several projected amounts back to the original schedules.	Inadequate support for assumptions increases the possibility of errors. It also makes future analysis and improvement of projection techniques difficult.
3-5.12 ASSIGNED RESPONSIBILITY	The individual responsibility for the timeliness and accuracy of each report, ledger, journal, procedure, and form should be documented in the recipient's accounting manual.	Verify that responsibilities have been assigned and are carried out.	The failure to assign responsibilities may result in increased errors, a reduction in accountability, and in the untimely issuance of fiscal reports.
3-5.13 BONDING	All individuals who handle cash, sign checks, and/or have purchasing or other financial responsibilities or access to financial records and assets shall have fidelity insurance coverage.	Verify that the governing body has approved or ratified fidelity bond insurance coverage for all appropriate individuals in conformance with 45 CFR Part 1629.	Failure to maintain fidelity coverage may result in unrecoverable losses.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3-5.14 <u>EDP CONTROLS</u>	General controls apply to all computer processing carried out at a facility and are independent of specific applications. They relate to organization, system design, development, and modifications, and security.		
Organization	Management must take an active role in EDP functions.	Do EDP function receives continuing audit coverage? Are past audit recommendations followed-up? Are there adequate separation of duties within the EDP operation?	Without management review and control over EDP, functions and controls are readily subject o misuse.
System Design, Development, and Modification	Controls in this category are intended to insure that systems meet user needs, are developed economically, are thoroughly documented and tested, and contain appropriate internal controls.	Is there a formal approach for system development? Are users involved in the development of system requirements? Do standards exists for documenting different EDP functions? Are requests for modifications to existing programs documented and approved by appropriate management levels?	Proper procedures for system design, development and modification will increase the likelihood of irregular handling of EDP functions be discovered on a timely basis.
Security	These controls must provide assurances that computers and the data they contain are properly protected against theft, loss, unauthorized access, and natural disaster.	Is a periodic risk analysis performed and documented? Have responsibilities for computer security been formally assigned? Is access to the computer room controlled through the use of some physical device? Is responsibility for storing magnetic data clearly documented? Is there an emergency disaster prevention and recovery plan and is it tested periodically?	Without adequate security controls over the computers and the data they contain the organization could experience financial losses because of theft, fire, unauthorized access and natural disaster.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
3.5.15 ELECTRONIC BANKING			
Authorization Process for Electronic Banking Activities	An authorized listing of the types of electronic banking activities that the organization is engaged in should be maintained along with fully documented process and procedures. The types of activities could include: - Electronic receipts arrangements with grantors. - Electronic receipts arrangements with contributors. - Web based fundraising efforts and applications. - Other inbound electronic funds receipts arrangements. - Electronic vendors and payment arrangements. - Electronic payroll (Direct Deposit Payroll). - Electronic employee expense payment arrangements. - Other outbound electronic disbursement arrangements. - Wire transfers, on-line transfers and telephone transfers should also be authorized and have fully documented policies and procedures.	A detailed listing of the organization's regular inbound EFT's should be maintained and updated. Review the listing and determine that the listing is complete and that each EFT deposit arrangement is properly understood and authorized by management. Review any web-based or on-line fundraising applications and determine that they are authorized by management and documented with adequate procedures and controls in place. Review the organization's listing of regular EFT vendors and transaction types and determine that the listing is complete and that the arrangements are understood and authorized by management. Review the organization's policies and procedures for wire transfers, on-line account transfers and telephone transfers to assure that the activity is understood and authorized by management. Review the organization's direct deposit payroll arrangements and procedures to determine that the process is fully documented and authorized by management.	Failure to authorize and document inbound electronic receipts activities and arrangements increases the risk that organizational funds could be re-directed or misappropriated. Failure to document and authorize regular EFT activities for payments (vendors & employees) increases the risks that purchases could be made without the knowledge of management or that funds could be improperly disbursed. Failure to document and authorize wire and transfer processes increases the risk that wires or transfers could be made without the knowledge of appropriate management and that funds could be improperly moved, wired or transferred.
Authorization Process for Employees that Initiate and Transmit EFT Transactions	Management should prudently control, review and authorize employees that initiate and transmit electronic banking activities. The authorization should be documented and limited to appropriate employees.	Review the current listing of employees that initiate and transmit electronic transactions and determine that they are appropriate and are formally authorized by management. Determine that the access, privileges and authorizations are commensurate with the Employee's regularly assigned duties and that the assignments include prudent segregation of duties.	Failure to systematically review, authorize and monitor employees with electronic transaction responsibilities and failure to consider segregation of duties increases the risk that transactions could be initiated by inappropriate personnel without the knowledge of management or improperly disbursed.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Review and Approval Procedures for Electronic Banking Transactions	A timely process for review and approval of electronic transactions should be in place to assure that the transactions are reasonable, appropriate and accurate.	The organization should have documented review and approval procedures established for electronic transactions. Reasonable verification procedures to validate completeness, accuracy and amounts paid should be documented.	Failure to have documented and robust review and approval processes for electronic transactions may result in transactions without the knowledge of management, payment errors and improper disbursements.
Supporting Documentation for Electronic Banking Transactions	A documented process to collect and retain relevant electronic transaction supporting documentation and transmittal confirmations should be in place.	Review the system of printing and retaining relevant supporting documentation for electronic transactions.	Inadequate supporting detail for electronic transactions can result in unauthorized disbursements, improper transactions, misclassifications and/or duplicate payments.
Recording Electronic Transactions to the General Ledger	An effective method should be established to collect, categorize and record electronic transactions to the general ledger. Electronic banking transactions should be recorded to the general ledger by an individual who does not initiate or transmit the electronic transactions.	Review the system for collection and categorizing electronic transactions for recording to the general ledger. - Is the activity sufficiently organized to allow for accurate coding? - Is the activity collected, recapped, reviewed and posted on a timely basis? - Can the postings be easily traced to the detail documentation? - Do the postings agree to electronic transactions reported on the bank statements and included in bank reconciliations.	Incomplete and ineffective methods for collecting and recording electronic activity can adversely affect the ability of the organization to accurately code, reconcile, post and report the activities.
Bank Reconciliations and Electronic Banking Activities	The bank statements should be timely reconciled and reviewed by individuals who do not initiate or transmit electronic transactions.	Review the bank reconciliation process to assure that it is documented, that the employee who reconciles the account is not initiating electronic transactions and that the reconciliation is performed timely and accurately and that it is properly reviewed.	Independent and documented bank reconciliation procedures can substantially decrease the likelihood of irregular or improper EFT disbursements and increase the likelihood that errors will be discovered and corrected in a timely manner.

Key Elements	Criteria	Aids in Evaluating Criteria	Risks
Electronic Banking Safeguards	Electronic banking policies and procedures should include careful documentation of the organizations banking arrangements and the safeguards that are established with the organizations bank.	On-line banking software programs are available at many banks that allow the organization to monitor daily bank transactions and perform a range analysis and banking activities on-line. While these programs can be powerful tools to assist management with monitoring and review of banking transactions it is critical that access to the on-line programs and features be documented, controlled, authorized and monitored. Many banks have systems that provide the ability to safeguard banking activities by use of authorization codes, positive pay verification, pre-established transaction limits and activity restrictions that prohibit certain defined activities from being processed. These include wire transfers outside the country, transactions over a certain amount, transfers to other banks, limiting transfers within a range of bank accounts, etc. Notification capabilities are also often available that direct the bank to automatically generate an e-mail or fax notification for certain transactions such as deposits, transfers and EFT transactions. Example: inbound EFT deposits, EFT account transfers, or electronic payments that exceed a pre-determined threshold might be set-up with the bank to generate a timely confirmation to the Finance Director, Executive Director or Board Treasurer.	Exploring, reviewing, implementing and documenting banking safeguards, security processes, password systems, verifications, bank transaction notification and account activity restrictions as part of the organization's banking arrangements can greatly reduce the risks of erroneous, fraudulent or improper transactions occurring or going undetected.

Chapter 3-6 FRAUD PREVENTION

The following key practices can help prevent fraud upon a grantee. This is not intended to be a complete list, and grantees may develop other thoughtful fraud prevention approaches not mentioned below.

1. Practice reasonable segregation of duties.
2. Reconcile bank accounts promptly.
3. Reconcile GL accounts promptly.
4. Keep accounting and personnel policies and procedures current.
5. Provide adequate employee training.
6. Control access to check stock, on-line banking software, accounting software and payroll software.
7. Do not share passwords.
8. Do not allow unauthorized software to be installed on business computers.
9. Limit access to financial records.
10. Limit credit card users and set credit card spending limits.
11. Maintain limited balance bank accounts for certain activities.
12. Assign permissions and authorizations deliberately and only as needed.
13. Change passwords and access codes periodically.
14. Delete old passwords and users immediately.
15. Have thorough and well documented hiring practices and procedures.
16. Employ strict office security policies and procedures.
17. Take advantage of bank services such as e-mail notifications for certain transaction, positive pay services, ACH filters, blocks on certain transactions, on-line banking features and on-line credit card account review features.
18. Make sure your computer network has robust and updated security processes, firewalls, anti-virus protection, spyware protection and other intrusion detection software.
19. Have a "Whistleblower Policy" in place that provides assurances that retaliation will not occur when an employee reports suspected fraud.

20. Have a "Conflict of Interest Policy" in place for management and the board of directors.

21. Remind and refer employees to the state bar association's professional ethics requirements, applicable federal and state laws and the organization's code of conduct, at least once per year.

22. Have well defined expense reimbursement policies and strict expense documentation requirements.

23. Board and executive management involvement in internal control policies and oversight efforts.

24. Promptly follow-up on any internal control findings, discrepancies, issues, weaknesses, comments or suggestions from internal auditors, external auditors, government agencies, employees, grantors or others.

25. Have a policy for what to do if you uncover fraud. Maintain a list of things to do, including contacting LSC's Office of Inspector General (OIG), the police, a new auditor, etc.

APPENDIX I ILLUSTRATIVE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

1. FINANCIAL STATEMENTS

The illustrative financial statements presented follow the accounting and reporting principles discussed in this Guide and are acceptable financial reporting formats for LSC recipients. Some variations from the illustrations may be appropriate, as long as the required disclosures elements are shown. LSC recommends a columnar, matrix format. The use of this format for the reporting of LSC support, revenue and expenses (grant activity) will allow the Corporation to make comparisons with budgeted amounts as well as accumulate regional or national data for the legal services network.

The following are required disclosures and/or presentations that must be shown on a recipient's financial statements in order to comply with this Guide and LSC financial reporting guidelines:

(1) Comparative financial statements with memorandum totals only for the prior year;

(2) Separate reporting of LSC net assets on the Statement of Financial Position (Balance Sheet); and

(3) Separate reporting of LSC grant activity on the Statement of Activity or in a supplemental schedule, which shows expenses charged to the LSC grant by natural expense classification along with separate reporting of PAI and other LSC grant or contract activity.

Included as illustrative examples are LSC grant activity reported in a Statement of Activity (Appendix IA) and in a Supplemental Schedule of Support, Revenue and Expenses and Changes in Net Assets for Legal Services Corporation grants (Appendix IB). LSC recommends consultation with the recipient's auditors on the proper financial statement reporting of LSC grant activity under this Guide and GAAP.

APPENDIX IA

(ILLUSTRATIVE)

FINANCIAL STATEMENTS FOR THE YEAR ENDED

DECEMBER 31, ~~19XX~~ 20XX

WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

LEGAL SERVICES PROGRAM, INC.

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

AS OF DECEMBER 31, ~~19XX~~20XX, WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

ASSETS	19XX	19X-1	LIABILITIES	~~19XX~~20XX	~~19X~~20X-1
CURRENT ASSETS			**CURRENT LIABILITIES**		
Cash	$ 36,290	$ 41,056	Accounts Payable	$ 40,180	$ 36,200
Certificate of Deposit	250,000	200,000	Accrued Expenses	37,200	32,100
Client Escrow funds	3,100	2,500	Employee Withholding Payable	9,820	10,190
Receivables	13,400	17,800	Client Trust Deposits	3,100	2,500
Prepaid Expenses	14,200	10,100	Current Maturities -- Notes Payable	6,948	5,689
			Grants Payable	125,000	100,000
Total Current Assets	316,990	271,456	Total Current Liabilities	222,248	186,679
PROPERTY			**LONG-TERM LIABILITIES**		
Furniture, Fixtures & Equipment	75,204	78,025	Notes Payable	14,311	20,000
Accumulated Depreciation	(13,000)	(12,500)	Less current maturities	(6,948)	(5,689)
Net	62,204	65,525	Total Long-term Liabilities	7,363	14,311
Leasehold Improvement	20,000	20,000			
Accumulated Depreciation	(3,000)	(2,500)	**COMMITMENTS AND CONTINGENCIES**		
Net	17,000	17,500			
			NET ASSETS		
Law Library	20,000	18,000	~~UNRESTRICTED~~ Unrestricted	4,850	3,475
Accumulated Depreciation	(4,000)	(3,000)	~~TEMPORARILY RESTRICTED~~ Temporarily Restricted		
Net	16,000	15,000	Legal Services Corporation - grant	73,936	63,105
			Legal Services Corporation - property	95,204	98,025
Total Property	95,204	98,025		169,140	161,130
			Non-LSC	10,093	5,386
OTHER ASSETS			Total Temporarily Restricted	179,233	166,516
Security Deposits	1,500	1,500	Total Net Assets	184,083	169,991
TOTAL ASSETS	$413,694	$370,981	**TOTAL LIABILITIES AND NET ASSETS**	$413,694	$370,981

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES PROGRAM, INC.
STATEMENT OF ACTIVITY
YEAR ENDED DECEMBER 31, ~~19XX~~20XX, WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

	UNRESTRICTED	TEMPORARILY RESTRICTED				
		LSC	NON-LSC	TOTAL	~~19XX~~20XX TOTAL	~~19X~~20X-1 TOTAL
REVENUES AND OTHER SUPPORT:						
Grants and Contracts		$1,575,000	$328,000	$1,903,000	$1,903,000	$1,594.519
Donated Items	$50,000	125,000		125,000	175,000	135,000
Fees		3,000	11,631	14,631	14,631	7,500
Interest Income		3,488	714	4,202	4,202	3,895
Gain on Sale of Equipment		3,216		3,216	3,216	
Other	1,375				1,375	
Net assets released from:						
Restrictions (Note ___):						
Satisfaction of program						
Restrictions	2,033,332	(1,697,694)	(335,638)	(2,033,332)		
Total revenues, gains and other						
support:	2,084,707	12,010	4,707	16,717	2,101,424	1,740,914
EXPENSES						
Program Services	1,902,174				1,902,174	1,530,616
Management and general	181,158				181,158	170,068
Total Expenses (Note)	2,083,332				2,083,332	1,700,684
Return to LSC		4,000		4,000	4,000	
Total Expenses and Other	2,083,332	4,000		4,000	4,000	
CHANGES IN NET ASSETS	1,375	8,010	4,707	12,717	14,092	40,230
Net assets at beginning of year	3,475	161,130	5,386	166,516	169,991	129,761
Net Assets at end of year	$4,850	$169,140	$10,093	$179,233	$184,083	$169,991

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES PROGRAM , INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, ~~19XX~~20XX

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	TOTAL
PERSONNEL EXPENSES			
Lawyers	$628,958	$69,884	$698,842
Paralegals	298,145	33,127	331,272
Other	179,408	19,934	199,342
Employee Benefits	150,403	16,712	167,115
Total Personnel Costs	1,256,913	139,657	1,396,571
OTHER EXPENSES			
Space and Occupancy	230,478	25,609	256,087
Equipment Rental	6,587	732	7,319
Office Supplies and Expenses	26,829	2,981	29,810
Telephone	38,507	4,279	42,785
Travel	4,477	497	4,974
Training	9,272	1,030	10,302
Library	8,773	975	9,748
Insurance	23,306	2,590	25,896
Donated Services	175,000		175,000
Dues and Fees	1,391	155	1,546
Audit	8,172	908	9,080
Litigation	5,345	594	5,939
Contract Services to Clients	86,965		86,965
Contract Services to Program	9,786		9,786
Depreciation and amortization	9,230	1,026	10,256
Other	1,141	127	1,268
Total Non-Personnel	645,260	41,501	686,761
TOTAL EXPENSES	$1,902,174	$181,158	$2,083,332

The accompanying notes are an integral part of these financial statements

LEGAL SERVICES PROGRAM, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, ~~19XX~~20XX, WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

Direct Method	~~19XX~~20XX	~~19X~~20X-1
Cash flows from operating activities:		
Cash Received from grantors	XXXXXX	XXXXXX
Cash Collected on Receivables	XXXXXX	XXXXXX
Interest Income	XXXXXX	XXXXXX
Miscellaneous	XXXXXX	XXXXXX
Cash paid to employees and suppliers	XXXXXX	XXXXXX
Subgrants	XXXXXX	XXXXXX
Net Cash used by operating activities	XXXXXX	XXXXXX
Cash flows from investing activities:		
Purchase of equipment	XXXXXX	XXXXXX
Proceeds from sale of equipment	XXXXXX	XXXXXX
Net Cash used by investing activities	XXXXXX	XXXXXX
Cash flows from financing activities:		
Payment on notes payable	XXXXXX	XXXXXX
Loan Proceeds	XXXXXX	XXXXXX
Net Cash used by operating activities	XXXXXX	XXXXXX
Net Increase (Decrease) in cash and cash equivalents	XXXXXX	XXXXXX
Cash and cash equivalents at beginning of year	XXXXXX	XXXXXX
Cash and cash equivalents at end of year	XXXXXX	XXXXXX
Reconciliation of change in net assets to net cash used by operating activities:		
Changes in net assets	XXXXXX	XXXXXX
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	XXXXXX	XXXXXX
(Increase) Decrease in Client Trust Funds	XXXXXX	XXXXXX
(Increase) ~~decrease~~ Decrease in Receivables	XXXXXX	XXXXXX
(Increase) Decrease in Prepaid Expenses	XXXXXX	XXXXXX
(Increase) ~~decrease~~ Decrease in Other Assets	XXXXXX	XXXXXX
Increase (Decrease) in Accounts payable	XXXXXX	XXXXXX
Increase (Decrease) in Accrued Expenses	XXXXXX	XXXXXX
Increase (Decrease) in Client Trust Deposits	XXXXXX	XXXXXX
Increase (Decrease) in Grants Payable	XXXXXX	XXXXXX
Net Cash used by operating activities	XXXXXX	XXXXXX

The accompanying notes are an integral part of these financial statements.

LEGAL SERVICES PROGRAM, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, ~~19XX~~20XX, WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

Indirect Method	~~19XX~~20XX	~~19X~~20X-1
Cash flows from operating activities:		
Change in assets	$14,092	$xx,xxx
Adjustments to reconcile change in Net Assets to Net Cash used by operating activities:		
Depreciation	10,256	x,xxx
Funds returned to LSC	(4,000)	
(Increase) Decrease in Client Trust Funds	(600)	xxx
(Increase) D~~d~~ecrease in Receivables	3,600	xxx
(Increase) D~~d~~ecrease in Prepaid Expenses	(4,100)	(xxx)
Increase (Decrease) in Accounts payable	3,980	x,xxx
Increase (Decrease) in Accrued Expenses	5,100	xxx
Increase (Decrease) in Client Trust Deposits	600	(x,xxx)
Increase (Decrease) in Grants Payable	25,000	x,xxx
Net Cash used by operating activities	53,928	xx,xxx
Cash flows from investing activities:		
Purchase of equipment	(7,486)	(xx,xxx)
Proceeds from sale of equipment	5,740	x,xxx
Net Cash used by investing activities	(1,746)	xx,xxx
Cash flows from financing activities:		
Payments on notes payable	(6,948)	(x,xxx)
Net Cash used by financing activities	(6,948)	(x,xxx)
Net Increase (Decrease) in cash and cash equivalents	45,234	xx,xxx
Cash and cash equivalents at beginning of year	244,156	xx,xxx
Cash and cash equivalents at the end of year	$289,390	$ xx,xxx

The accompanying notes are an integral part of these financial statements.

A P P E N D I X 1 B

(I L L U S T R A T I V E)

SUPPLEMENTAL SCHEDULE OF SUPPORT, REVENUE,

EXPENSES AND CHANGES IN NET ASSETS

FOR LEGAL SERVICES CORPORATION GRANTS

FOR THE YEAR ENDED DECEMBER 31, ~~19XX~~20XX,

WITH

COMPARATIVE TOTALS FOR ~~19X~~20X-1

LEGAL SERVICES PROGRAM, INC.

STATEMENT OF SUPPORT, REVENUE AND EXPENSES AND CHANGES IN NET ASSETS FOR LSC FUNDS

YEAR ENDED DECEMBER 31~~, 19~~20XX, WITH COMPARATIVE TOTALS FOR ~~19X~~20X-1

	BASIC FIELD GRANT	PRIVATE ATTORNEY INVOLVEMENT	OTHER LSC GRANTS	TOTAL	PROPERTY	GRAND TOTAL	~~19X~~20X-1 TOTAL
SUPPORT AND REVENUE							
Grants and Contracts	$1,312,500	$187,500	$ 75,000	$1,575,000		$1,575,000	$1,465,000
Donated Items		125,000		125,000		125,000	100,000
Fees	3,000			3,000		3,000	
Interest Income	3,488			3,488		3,488	2,500
Gain on sale of equipment					$3,216	3,216	
Other							
Total	1,318,988	312,500	75,000	1,706,488	3,216	1,709,704	1,567,500
PERSONNEL EXPENSES							
Lawyers	512,169	45,012	42,911	600,092		600,092	560,090
Paralegals	253,286	19,523	2,063	274,872		274,872	270,820
Other	146,401	10,235	5,206	161,842		161,842	151,000
Employee Benefits	126,401	9,032	8,236	143,669		143,669	124,010
Total	1,038,257	83,802	58,416	1,180,475		1,180,475	1,105,920
OTHER EXPENSES:							
Space and Occupancy	155,783	10,648	2,156	168,587		168,587	160,280
Equipment Rental			6,069	6,069		6,069	6,520
Office Supplies and Expenses	22,559	1,502	3,218	27,279		27,279	28,020
Telephone	35,004	4,031		39,035		39,035	35,010
Travel	3,168	56		3,224		3,224	4,280
Training	4,698	893	1,141	6,732		6,732	6,280
Library	8,963			8,963		8,963	7,403
Insurance	15,023	1,023		16,046		16,046	15,050
Donated Services		125,000		125,000		125,000	100,000
Dues and Fees							700
Audit	6,000	580		6,580		6,580	6,860
Litigation	4,589			4,589		4,589	3,210
Contract Services to Client		84,965		84,965		84,965	81,430
Contract Services to Program	9,001			9,001		9,001	7,180
Depreciation & Amortization					10,256	10,256	9,582
Other	893			893		893	
Total	265,681	228,698	12,584	506,963	10,256	517,219	471,805
TOTAL EXPENSES	1,303,938	312,500	71,000	1,687,438	10,256	1,697,694	1,577,725
SUPPORT AND REVENUE OVER (UNDER) EXPENSES	15,050	0	4,000	19,050	(7,040)	12,010	(10,225)
CHANGES IN NET ASSETS:							
Acquisition of Property	(7,486)			(7,486)	7,486		
Note Payment	(5,689)			(5,689)	5,689		
Transfer of proceeds from	8,956			8,956	(8,956)		
Returned to LSC			(4,000)	(4,000)		(4,000)	
Net Other changes	(4,219)		(4,000)	(8,219)	4,219	(4,000)	
TOTAL CHANGES IN NETS ASSETS	10,831	0	0	10,831	(2,821)	8,010	(10,225)
NET ASSETS							
Beginning of Year	63,105			63,105	98,025	161,130	171,355
End of Year	$73,936	$0	$0	$73,936	$95,204	$169,140	$161,130

APPENDIX I

2. NOTES TO THE FINANCIAL STATEMENTS

GAAP sets forth certain disclosures that should be included in a not-for-profit organization's financial statements. These notes are written to reflect LSC policies as realistically as possible. The appropriate disclosures required by GAAP must be made for each program individually. LSC recommends consultation with the recipient's auditor in this area. However, substantial deviation from suggested formats and disclosures may not satisfy LSC's annual financial reporting requirements. A description of each Note follows:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Note should include explanations of all the significant accounting policies used by the recipient. This note may contain some or all of the following: purpose, operation and legal form of the entity, management estimates, basis of financial statement presentations, capitalization of fixed assets and depreciation methods, cost allocations, cash and cash equivalent and/or policies on contributed/donated items and services.)

RESTRICTED NET ASSETS

(Note should report information about the nature and amounts of the different types of permanent restrictions and temporary restrictions on net assets along with the purposes of temporarily restricted and permanently restricted net assets. For fiscal year ends other than December 31st, this note should also enable LSC to identify the LSC temporarily restricted net asset balance pursuant to 45 CFR Part 1628 separately from LSC temporarily net assets designated for future periods.)

RECLASSIFICATIONS

(Note should include a schedule of those net assets (grant funds) released from grant and contract restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. This note should support the line item captioned "Net assets released from restrictions due to satisfaction of donor-imposed restrictions or any other line item that reclassifies temporarily restricted net assets to unrestricted.)

REVENUE RECOGNITION

(Note should include a description of each material support source, any restrictions on use of assets provided (contributions, total amount of funds available from executed grants/contracts, periods of funding covered by such grants/contracts, and a summary of funds expected to be received in the future (contributions receivable), and components of any grants payable reflected on the statement of financial position. If the number of sources is large, this information can be shown in a supplemental schedule or schedule of awards.)

EMPLOYEE BENEFIT PLANS

(Note should include a description of any pension plan or material benefits to employees and should be presented in accordance with GAAP. The note should also state whether the plans are qualified as tax - exempt by the Internal Revenue Service.)

LEASES

(Note should include a description of any capital lease arrangements included in Property and Equipment. A separate note should disclose any operating lease agreements including future minimum rental amounts for future periods.)

INVESTMENTS

(Note should describe how investments are valued and measured as well as a schedule of investment return shown in the Statement of Activities.)

COMMITMENTS AND/OR CONTINGENCIES

(Note should include but need not be limited to a description of any lawsuits or claims which could result in a material liability or any potential loss, description of any material contract or lease commitments which the recipient has entered into, and other commitments or contingencies of the recipient which should be disclosed in order to ensure the financial statements are not misleading, e.g., encumbrances.)

INCOME TAXES

(Note should include, but need not be limited to, a description of Federal and state tax status of the recipient, including private foundation status.)

PRIOR YEAR'S FINANCIAL INFORMATION

(The comparative financial statement format recommended in this Guide reflects totals only for the previous year's operations. Since comparative financial statements are considered necessary by LSC and not required but encouraged by GAAP, the following comment should be included in this note: "The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended (prior year), from which the summarized information was derived.")

NONRECURRING ITEMS

(Note should disclose any material item of support or expense which would not normally be expected to recur in the foreseeable future.)

RELATED PARTY TRANSACTIONS

(Note should disclose all financial transactions of the recipient with related parties such as directors, officers, subrecipients, and other organizations. Disclosure of subrecipient relationships may be more appropriately included in a note related to grants and contracts made during the year by the recipient or in a separate note.)

DONATED ITEMS/CONTRIBUTIONS

(Note should disclose all donated items received during the reporting period and describe the valuation method used and donor-imposed restrictions.)

DEBT

(Note should disclose all details of a Note Payable including amount, purpose, security, if applicable , monthly payment, interest rate and future maturities of the debt.)

PROPERTY AND EQUIPMENT

(Note should show full detail by asset category, including depreciation, for the amount shown as Property and Equipment and detail property purchased with LSC funds as opposed to non-LSC funds.)

APPENDIX II DESCRIPTION OF ACCOUNTING RECORDS

This section describes the accounting records that shall be maintained by each recipient. In general, accounting records should be maintained on a double-entry method utilizing fund accounting. Each recipient should establish the system most appropriate to its needs. Each recipient shall retain original accounting records and supporting documentation per retention times for nonprofit records listed below, and make such records available for review when required.

General Ledger summarizes and classifies all financial transactions from data accumulated in the books of original entry. The general ledger is the final and permanent record of all of the recipient's financial transactions and basis for preparation of the financial statements.

Cash Receipts Journal records cash receipts (i.e., cash, checks, and money orders) in chronological sequence when received. Bank deposit slips must contain sufficient information so that all deposits can be traced to the original source and to the cash receipts journal.

Cash Receipts Log verifies the amount of cash receipts recorded in the general ledger and deposited in the bank. The log shall list the date the cash was received, payee, check number and amount.

Cash Disbursements Journal records disbursements in chronological sequence. All disbursements must be made by prenumbered checks (excluding petty cash funds) used in numerical sequence. Each check must be supported by appropriate documentation (e.g., payroll records, in voices, contracts, travel reports, etc.) as set forth in 45 CFR Part 1630. The approval of a disbursement by an authorized individual shall also be documented.

General Journal records those transactions that are not recorded originally in the cash receipts journal, cash disbursements journal, payroll register, or other books of original entry. Each journal entry must be adequately supported and documented. Journal entries or journal vouchers shall be numbered consecutively and approved by an authorized individual, such approval being evidenced by the authorized individual's initials and the date of review.

Payroll Records accumulate payroll data as required by Federal, state, and local laws. Documentation must be maintained to support individual gross earnings. The following payroll data shall be included in each employee's payroll file:

1. Wage or salary authorization, employment contracts, if applicable;
2. Federal W-4 withholding form;
3. State withholding form;
4. Authorization for all other payroll deductions; and
5. Authorization for all wage/salary actions.

Additionally, each recipient is required to establish an adequate time-reporting system. This system must be able to demonstrate the number of hours worked by an employee, including overtime and compensatory time earned. Whether a sign-up sheet, a time report, or other method is utilized, a supervisor in a position to verify the information, or an individual delegated by the supervisor, shall approve all time sheets.

Vacation and sick leave records must be maintained for each employee. These records shall identify the amount of vacation and sick leave earned and used and the remaining balances. The total of the remaining balance should support the amount disclosed in the financial statements.

Client Trust Records document the receipt and disbursement of client funds. The total of the balances of these individual records must equal: (1) the cash in the escrow bank account designated solely for client trust funds; and (2) the corresponding client trust liability account. Both accounts are required to be maintained in the general ledger and disclosed in the financial statements or in a note to the financial statements. Client names should not appear in the general ledger and should be substituted with assigned numbers (e.g., case file number).

Property Records account for fixed assets and equipment and should include, at a minimum, the following information:

1. A description of the property, including model and manufacturer's serial number or other identification number;
2. Date of acquisition;
3. Number of check used to pay for item;
4. Cost of the property and salvage value;
5. Useful life;
6. Depreciation method (i.e., recipient must either adopt a written policy on depreciation methods governing identifiable classes of property or show the actual depreciation method on each individual property record);
7. Source of funds used to acquire the property;
8. Description of how value was assigned if property was donated;
9. Location and condition of the property and the date the information was reported;
10. Inventory control number/tag;
11. The ultimate disposition data, including date and method of disposal and sales price if sold with the method used to determine the current fair value.

The total dollar value of individual items capitalized shall equal the property control account balance in the general ledger and support related amounts disclosed in the financial statements.

RETENTION TIMES FOR NONPROFIT RECORDS

A nonprofit organization should have a written, mandatory document retention and periodic destruction policy. Such a policy also helps limit accidental or innocent destruction. The document retention policy should include guidelines for handling electronic files and voicemail. Electronic documents and voicemail messages have the same status as paper files in litigation-related cases. The policy should also cover back-up procedures, archiving of documents, and regular check-ups of the reliability of the system. If an official investigation is underway or even suspected, management must stop any document purging in order to avoid criminal obstruction charges.

LSC recommends consultation with the recipient's auditor or attorney to determine its record retention policies. Records that have continuing legal or tax significance should be retained.

Accounting Records

General journal	PERMANENT
General ledger	PERMANENT
Cash receipts ~~book~~ ledger	~~10~~ 7 years
Cash disbursements ~~book~~ ledger	7 years
Bank statements and canceled checks	7 years
Bank Reconciliations	3 years
Billings for services	4 years
Employee travel and expense reports	4 years
Expense bills (source documents)	4 years
Petty cash records	4 years

Financial statements -- annual	PERMANENT
Financial statements -- monthly or quarterly	~~7~~ 4 years
Audit Reports	PERMANENT
Inventories	7 years
Indirect Cost Allocation Documentation (after fiscal year end)	3 years
Fixed Assets	
Land and buildings	PERMANENT
Equipment ~~in use~~(After Disposition)	~~KEEP ON FILE~~ 3 years
Equipment traded in on similar asset (After Disposition)	~~KEEP ON FILE~~ 3 years
Equipment disposed of (no trade-in)	~~7 years~~ 3 years
Depreciation Schedules	PERMANENT
Contracts	
Leases (after termination)	7 years
Grant agreements (After expiration of grant)	~~10~~ 6 years
Restricted funds documentation (after use of funds)	~~10~~ 7 years
Tax Returns	
Federal form 990 and working papers	PERMANENT
State information returns and working papers	PERMANENT
Payroll tax returns	~~5~~ 4 years
Withholding tax statements (W-2)	~~7~~ 4 years
Corporate Organization Records	~~PERMANENT~~
Corporate charter and certificate of incorporation	PERMANENT
Minutes of Board of Directors meetings	PERMANENT
Annual reports	PERMANENT
Personnel Records	
Individual employee records (after termination)	~~PERMANENT~~ 4 years
Payroll ~~book~~ Master Ledger (Annual)	PERMANENT
Employment Applications	2 years
Timecards and Daily Reports (after termination)	4 years
Union Agreements	4 years
Employee pension and insurance records	PERMANENT
Correspondence	
General Correspondence	~~5~~ 2 years
Legal Correspondence	PERMANENT

APPENDIX III CHART OF ACCOUNTS

1. Overview

The chart of accounts lists the accounts in the general ledger that can be used to accumulate financial information necessary for adequate grant reporting for both intern al and external purposes. The chart of accounts also demonstrates how fund or grant activity and cost center and/or functional activity can be accumulated for the various funding sources, cost centers and/or functions.

The following sample chart of accounts reflects an account structure for a medium-sized recipient. For an automated accounting system, the chart of accounts is the key element that drives the entire system. ~~In a manual system, the design of the manual records is equally important in ensuring the system will meet the needs of the recipient.~~

This sample chart of accounts is for reference purposes only. It does not dictate the accounts and detail required of recipients, but is simply on e method of addressing the accounting requirements of this Guide. While the account numbering system, account descriptions, and level of detail utilized by recipients should be designed to provide management reporting and financial disclosures specifically related to individual recipients, the techniques selected must also accommodate the reporting requirements of LSC.

2. Chart of Accounts Structure

The basic structure of this chart of accounts is diagramed below.

Fund

Natural Account Classification

Cost Center/Function (If required, this code can be expanded to accommodate both cost center and functional reporting.)

XX XXX XX/XX

The fund, natural account classification, and cost center/function coding logic is summarized as follows:

FUND	CLASSIFICATIONS	COST CENTERS	FUNCTION
01 LSC	100 Assets	11 Main Office	10 - Non Private Attorney Involvement
02 IOLTA	200 Liabilities	12 Downtown Office	20 - Private Attorney Involvement
03 AAA	300 Fund Balances	13 Rural Office	
04 Miscellaneous Grants and Contracts	400 Support		
	500 Expense		
05 Unrestricted/General Fund	600 Expenses (Cont'd)		
06 Donated Items	700 Asset Activity		

3. Sample Chart of Accounts

The coding logic described above, when used in conjunction with natural account classifications similar to those described below, provides extensive flexibility for accumulating financial information needs and requirements.

ASSETS	LIABILITIES
100 Cash Accounts	200 Accounts Payable
101 Operating	201 Vendor
102 Payroll - Imprest	202 Employer FICA
103 Petty Cash - Imprest	203 Unemployment Compensation
	204 Group Health and Life
110 Client Trust Funds	205 Worker's Compensation
111 Main Office	210 Employees Withholdings Payable
112 Downtown Office	211 Federal Income Tax
113 Rural Office	212 State Income Tax
120 Receivables:	213 FICA
121 LSC	214 Group Health and Life
122 IOLTA	220 Accrued Expenses
123 AAA	221 Payroll
124 Other	222 Other
130 Investments	225 Grants Payable
131 Treasury Bills	230 Client Trust Deposits
132 Certificate of Deposit	
140 Travel Advances to Employees	235 Notes Payable
150 Prepaid Expenses	
151 Prepaid Insurance	FUND BALANCES (Net Assets)
152 Deposits	300 Restricted Grants and Contracts:
160 Furniture, Fixtures, and Equipment	301 LSC
170 Law Library	302 IOLTA
180 Leasehold Improvement	303 AAA
190 Accumulated Depreciation and Amortization	304 Miscellaneous Grants & Contracts
191 Furniture, fixtures, and Equipment	310 Unrestricted
192 Leasehold improvements	320 Property

2010 PROPOSED REVISIONS TO ACCOUNTING GUIDE FOR LSC RECIPIENTS

SUPPORT AND REVENUE

400 Grant and Contract Support
410 Contributions - Cash
411 Bar Associations
412 Other
430 Interest Income
440 Court Awarded Attorney Fees
450 Miscellaneous and Other Revenue

EXPENSES

500 Lawyers' Salaries
510 Non-Lawyers' Salaries and Wages
520 Overtime wages
521 Overtime Lawyers
522 Overtime Non-Lawyers

530 Employee Benefits
531 Employees FICA
532 Group Benefit Insurance
533 Unemployment Insurance
534 Retirement Contributions
540 Legal Consultants/Judicare Payments
550 Other Consultants/Professional Services
551 Audit Expense
552 Other Accounting Services
553 Non-Legal Consultants
554 Membership Dues and Fees
560 Travel
561 Transportation
562 Lodging
563 Meals
564 Registration and Conference Fees
565 Local Travel

EXPENSES (Continued)

570 Space and Occupancy
571 Rent
572 Janitorial Service
573 Gas
574 Electric
575 Water
576 Hazard Insurance
580 Office Expenses
581 Supplies
582 Recruitment
583 Insurance
584 Postage
585 Reproduction
586 Telephone
587 Library
590 Litigation Costs
591 Depositions and Transcripts
592 Expert Witness
593 Filing, Docket and Service Fees
594 Printing of Briefs and Petitions

599 Interest Expense

600 Equipment Rental
610 Depreciation and Amortization
620 Subgrants Expense
700 Acquisition of Personal Property

705 Acquisition of Real Property

710 Acquisition of Library

720 Proceeds from Sale of Property

730 Gain or Loss on Sale of Property

4. Description of Accounts

The chart of accounts provides a method of organizing a recipient's accounting records. While a recipient's accounting system must be designed to suit its particular needs, these basic accounts descriptions should be considered in the development of the recipient's accounting system.

ASSETS

Cash - Operating -- cash on deposit in bank account(s).

Cash - Imprest Payroll Account -- used exclusively for the disbursement of payroll.

Petty Cash -- funds held at the recipient's office for paying small and emergency expenditures.

Client Trust Funds -- the receipt of funds on behalf of clients. The balance must agree with the Client Trust bank account balance, and with the corresponding liability.

Investments -- the carrying value of investments, e.g., certificates of deposit, and treasury bills. A subsidiary record should be maintained for each class of investment to account for the cost and income.

Receivable(s) LSC or Other Grantors -- revenues earned but not received.

Receivable(s) - Other -- miscellaneous receivables.

Advances to Employees -- record the amount of travel advances outstanding. A subsidiary record or sub - account must be maintained for each employee.

Prepaid Expenses -- the amount of expenses paid which apply to future periods. A prepaid expense need not be recorded unless the expense applies to a period ~~more than 12 months from the date paid.~~after the fiscal year end.

Deposits -- amount of refundable deposits made by the recipient.

Furniture, Fixtures, and Equipment -- the cost (or fair value, if donated) of furniture, fixtures and equipment capitalized based on the recipient's policies.

Law Library -- the cost of the law library. The costs capitalized in this account should reflect only those items with a useful life of more than one year.

Leasehold Improvements -- the cost of all items valued in excess o f $~~1~~5,000, incurred in connection with making capital improvements to rental sp ace (e.g., carpets, new walls, etc.), which cannot be carried to another location.

Accumulated Depreciation/Amortization -- the expiration of the service life of assets (i.e., periodic depreciation/amortization expense).

LIABILITIES

Accounts Payable --the amount of unpaid vendor invoices on hand. If accounting records are maintained on the accrual basis.

Other Accounts Payable --liabilities arising from the employer's share of employee benefits such as employer FICA, Unemployment Compensation, Workmen's Compensation, and other liabilities.

Employee Withholdings Payable --funds withheld from employees' salaries (e.g., FICA, federal, state and local taxes, pension, health insurance, etc.). Separate accounts should be maintained for each type of withholding.

Accrued Expenses -- the estimated cost of goods or services received for which an invoice has not yet been received. This account can be utilized at the close of an accounting period to accrue salaries, employer's share of FICA and other taxes, which are owed, but not yet paid. Separate accounts should be maintained for accrued salaries and other miscellaneous accruals such as utilities and consultant fees.

Unearned Grants ~~Payable~~ Revenue -- support received in advance, but designated to be used in a future period, or to record support received but not earned as of the date of the balance sheet, but is expected to be recognized as revenue in subsequent periods.

Client Trust Deposits --the amount of cash received from or on behalf of clients for court costs or other purposes. The balance must agree with the Client Trust bank account balance and the corresponding asset.

Net Assets (Fund Balance) -- an organization's net assets and are subject to review and approval by LSC. (45 CFR Part 1628). In addition, if LSC funding of a recipient is terminated, all unexpended LSC funds are to be returned to LSC or disposed of in accordance with instructions from LSC. Fund balances may be classified as "temporarily restricted", "permanently restricted", or "unrestricted." Temporarily Restricted: These represent the balances of support over expenses for grants, contracts, and other awards which have restrictions. Each grant or contract or other award requiring separate reporting shall have a separate fund balance. Permanently Restricted: Those resources which are in the form of endowments, with the principal of the gift or bequest remaining intact and the income available for use as intended by the donor. Unrestricted: These represent the balances of support over expenses from unrestricted sources. Each contribution or other award requiring separate reporting shall have a separate account for its fund balance. Sound financial management practices should preclude deficit spending of unrestricted as well as other funds.

Property -- the net equity in all land, buildings, leasehold improvements, furniture, fixtures, equipment, and law books purchased.

SUPPORT AND REVENUE

Grants and Contracts -- the amount of support earned during the accounting period.

Contributions -- cash contributions received during the accounting period.

Donated Property and Services -- the value of all donated assets, facilities, and services received during the accounting period.

Interest Income -- interest earned during the accounting period.

Attorney Fees -- fees award received during the accounting period.

Miscellaneous and Other Revenue -- miscellaneous and other revenue earned during the accounting period which cannot be classified in any of the above accounts. Where amounts exceed $5,000, separate accounts shall be established to accurately describe the nature of the income.

EXPENSES

Salaries and Wages -- the salaries of all the recipient personnel. At a minimum, salaries shall be broken down into four main categories: attorneys, paralegals, support staff and other staff.

Employee Benefits -- the costs of items such as employer FICA taxes, unemployment taxes, employer retirement contributions, employer health and life insurance payments, workmen's compensation and other payroll-related benefit items offered by the recipient. Individual sub-accounts must be maintained for each of these items.

Contract Services to Clients -- payments to private attorneys and other consultants for service provided to clients.

Contract Services to Program -- the costs of contracted or purchased services. For financial statement purposes, other Consultant/Professional Services shall be described as to nature, amount and purpose.

Travel -- travel costs (e.g., transportation, lodging, and meal expenses while on a business trip).

Space and Occupancy -- the costs of rent, utilities (such as electricity, water, and gas), janitorial services, and hazard insurance.

Office Expenses -- the costs of, among other things, office supplies, printing, reproduction supplies, recruitment, postage, telephone, and insurance other than hazard insurance and employee benefit insurance.

Interest Expense -- interest paid pursuant to debt agreements.

Litigation Costs -- costs of depositions and transcripts, service of process, filing fees, expert witnesses, and any other litigation costs paid by the recipient and not by the client.

Equipment Rental -- all costs related to renting or leasing furniture and equipment.

Subgrant Expense -- all grants awarded to subrecipients by the recipient during the year.

Depreciation and Amortization -- the depreciation expense of furniture, equipment, law library and leasehold improvements acquired by the recipient.

PROPERTY ACCOUNTS

Acquisition of Personal Property, Real Property, or Law Library This account is used to record the costs of all land, buildings, furniture, equipment, leasehold improvements and other property or law books with a cost in excess of $~~1~~5,000 that were purchased during the accounting period. The account is closed to the applicable fund balance of the source of funds used to purchase the property. This amount is the source for the entry to capitalize as assets all capital property purchases at year-end.

Proceeds from Sale of Property This account is used to record (as a closing entry) the proceeds from the sale of property in the appropriate fund and relieves the property fund balance of the related remaining original cost and/or gain.

Gain or Loss on Sale or Other Disposition of Property This account is used to record any gains or losses pursuant to the sale or other disposition of property.

1. OVERVIEW

LSC requires capitalization and depreciation of property and equipment. Capitalization provides balance sheet control over the asset. Depreciation recognizes that capital assets a re a part of the ongoing cost of providing legal services.

Separate "asset acquisitions" accounts should be included in the chart of accounts to record property transactions. During the year, purchases are charged to this account based on the recipient's asset capitalization policy. LSC ~~recommends~~ requires that purchases over $~~1~~5,000 with useful lives of more than one year be capitalized; however, recipients have the discretion of using lower values. Asset acquisitions are reflected in interim reports as expenses and at year-end the balance in the "asset acquisition" account is capitalized.

LSC does not require that the general ledger maintain property accounts balances by funding sources; accordingly the record of whose funds were used to purchase or finance particular items is included only in the property records. Recipient's property records can be individual cards or other documents that contain the information listed ~~above~~ in Appendix II ~~the section captioned~~ "Property Records." ~~Also, see Appendix II.~~

Accounting for the law library, which is part of property and equipment, does not require that depreciation be recognized when the estimated salvage value will equal or exceed cost. A particular volume should be written off when it becomes obsolete. Major additions to the law library should be capitalized. The ordinary cost of maintaining a law library, such as updates, replacements, periodicals, loose leafs, etc., should be charged to expense.

Depreciating assets should be a procedure that is the easiest and most reasonable for the recipient. Depreciation by individual item is the easiest method. Either the vintage year method, discussed below at No. 5, ~~later,~~ or a lapsing schedule may be used. A lapsing schedule simply computes the asset's depreciation over its useful life when purchased. This depreciation is spread over the applicable years so that, for any one year, depreciation expense is taken directly from the schedule.

2. CAPITALIZATION

Capitalization of property items is illustrated in the following accounting entries that record the property acquisition using LSC funds. For illustrative purposes, the cost of the equipment is assumed to be $52,000 and the account names are from the chart of accounts illustrated in Appendix II.

Illustration 1.1 - To record equipment purchased with cash.

~~Dr: Acquisition of property $52,000~~

~~Cr: Cash $52,000~~

Dr: Furniture, Fixtures & Equipment (Asset) $52,000

Cr: Cash or Note Payable $52,000

To record the cost of property in a property acquisition account. ~~which will be closed to the appropriate fund balance at year-end.~~

~~For management reporting purposes, fixed asset purchases are treated as expenses during the year and closed to the appropriate fund balance as a reclassification along with all support and expense account at year-end.~~

Illustration 1.2 - A second entry is required (~~normally made quarterly or~~ at the end of the year) to record the restriction of the asset: ~~in a balance sheet account:~~

~~Dr: Furniture, Fixtures, Equipment $52,000~~

~~Cr: Fund Balance $52,000~~

Dr: Unrestricted Net Assets $52,000

Cr: Temporarily Restricted Property Net Assets $52,000

Assets acquired with LSC or other restricted funds are properly accounted for as Restricted Net Assets.

~~Illustration 2.1 - To record equipment financed partially by debt.~~

~~(a)Dr: Acquisition of Property $ 2,000~~

~~Dr: Furniture, Fixtures, Equipment $50,000~~

~~Cr: Cash $ 2,000~~

~~Cr: Notes Payable $50,000~~

~~(b)~~(a) ~~Dr:~~

~~Furniture, Fixtures, Equipment $ 2,000~~ ~~$ 2,000~~

~~To record (a) the purchase of equipment costing $52,00 with a $2,000 cash down payment with th e balance financed by a $50,000 note. A second entry (b) similar to the second entry in illustration 1.2 is necessary to record the cash portion of the asset cost in the balance sheet account - Furniture, Fixtures and Equipment.~~

Illustration 2.~~2~~ 1 - To record periodic payments on the note payable.

Dr: ~~Acquisition of Property~~ Note Payable	$ 4,000	
Dr: Interest Expense	$ 500	
Cr: Cash		$ 4,500
~~(a) Dr: Note Payable~~	$ 4,000	
~~Cr: Fund Balance – Property~~		~~$ 4,000~~

To record (a) payment of debt installment ~~in the Acquisition of Property accounts (which will be closed to the applicable fund balance)~~ and the related interest expense~~; and (b) to record the increase in equity in the property fund resulting from payment on the Note Payable~~..

When a recipient has historically expensed property and such property is still in use, an entry to capitalize these assets can be made by recording the furniture, fixtures, equipment or law library at its original cost less accumulated depreciation. In absence of accurate historical cost records, an appraisal or other estimate of the cost will be satisfactory. A cost-based appraisal contemplates recording property on the basis of catalog prices, vendor price lists, or another reasonable source. Each recipient should exercise judgment in using a reasonable method to determine an amount to be capitalized.

Formatted: Bullets and Numbering

3. DEPRECIATION

LSC suggests that the straight-line depreciation method with the following guidelines for estimated useful lives, or other criteria can be used if a recipient believes the criteria below are not appropriate for program's assets.

Buildings	30 to 40 years
Furniture, fixtures, and equipment	5 to 10 years
Law Library	3 to 10 years
Leasehold Improvements	Term of lease or life of improvements whichever is shorter.

Using the earlier example, assuming a useful life of ten years, a salvage of $6,000 and depreciation computed on the straight-line method depreciation on the equipment for one year is $4,600 ($46,000 divided by 10) and would be recorded in the property fund as follows:

Dr: Depreciation and Amortization Expense $4,600

Cr: Accumulated Depreciation—Equipment $4,600

Dr: Temporarily Restricted Property Net Assets $4,600

Cr: Unrestricted Net Assets $4,600

During the year of acquisition or disposal, the recipient should record one-half year's depreciation expense for convenience.

Depreciation may be computed on an item-by-item or group basis. The item-by-item basis is the simplest method. The group basis consolidates similar type items (i.e., - all furniture, all office equipment, etc.) purchased during a year (vintage-year) and considers them as one group (i.e., furniture, equipment, etc.). Therefore, depreciation records are maintained for the group instead of each individual item group.

A record detailing original cost of each item within the group should be maintained by year to be used if particular items are sold or retired before they are fully depreciated (this subject will be discussed later) . Depreciation for groups of assets is computed in the same manner as depreciation for an individual item, which was illustrated in the previous paragraph.

4. SALES

The net gains or losses from the sale of property and equipment should be reported as revenue or expense in the class of net assets that purchased the property. Gain or loss on a transaction is defined as the difference between the sales proceeds and the net book value of the asset (original cost reduced by accumulated depreciation to the date of sale).

Proceeds from the sale of LSC property are not, as a general policy, required by LSC to be reinvested in property. Proceeds, if not reinvested in property, should be used for general program purposes. This will not result in a permanent increase in annualized funding requirements.

The following illustrates the recording of a sale when a gain (Illustration 1) is realized or a los s (Illustration 2) is incurred:

Illustration 1 - Sale of equipment at more than net book value.

Assumptions:
- a. Equipment was originally purchased for $52,000.
- b. At time of sale, accumulated depreciation was $46,000.
- c. Asset was sold for $20,000.

Sales of assets can be recorded most conveniently by utilizing the following two entries.

1. The first entry is necessary to record the transaction when it occurs.

Dr: Cash	$20,000	
Dr: Accumulated Depreciation	$46,000	
Cr: Furniture, Fixtures, and Equipment		$52,000
Cr: Gain on Sale of Property of LSC Program Assets (Revenue)		$14,000

To record the receipt of a cash payment for property sold, clear the related asset and accumulated depreciation accounts, and record the gain on the sale to the LSC Program.

2. The second entry can be made as a closing entry monthly, quarterly, or at year-end. At year end closing, the credit balance in Gain – LSC is closed to Temporarily Restricted LSC Net Assets.

~~Dr: Fund Balance - Property~~	~~$20,000~~	
~~Cr: Proceeds from Sale of Property~~		~~$20,000~~

Balance in Temporarily Restricted LSC Property Assets: $52,000 – $46,000 = $6,000

Dr: Temporarily Restricted LSC Property Net Assets	$6,000	
Cr: Unrestricted Net Assets:		$6,000

To relieve the property fund balance for the unadjusted original cost ($6,000). ~~and gain ($14,000) being carried therein, and record the related proceeds from the sale in the LSC fund.~~

Illustration 2 - Sale of equipment at less than net book value.

Assumptions: Same as illustration 1 except that the equipment was sold for only $1,000.

1. Again, the first entry is necessary to record the transaction when it occurs.

Dr: Cash	$ 1,000	
Dr: Accumulated Depreciation	$46,000	
Dr: Loss on Sale of Property of LSC Program assets (Expense)	$ 5,000	
Cr: Furniture, Fixtures, and Equipment		$52,000

To record the receipt of a cash payment for property sold, clear the related asset and accumulated depreciation accounts, and record the loss on the sale.

2. The second entry again can be made as a closing entry monthly, quarterly, or at year-end. At year end closing, the debit balance in Loss – LSC is closed to Temporarily Restricted LSC Net Assets.

~~Dr: Fund Balance - Property~~	~~$ 1,000~~	
Dr: Temporarily Restricted LSC Property Net Assets	$6,000	
Cr: Unrestricted Net Assets		$6,000
~~Cr: Proceeds from Sale of Property~~		~~$ 1,000~~

~~To relieve the property fund balance for the remaining unadjusted original cost ($1,000) and record the proceeds from the sale in the LSC fund.~~ To relieve the property fund balance for the unadjusted original cost ($6,000).

5. VINTAGE-YEAR ADJUSTMENT

When the group (vintage-year) method is used, gains or losses are recorded similarly. If an item is included in a group being depreciated over ten years, and four years depreciation has been recorded at the time of the sale, then the basis (i.e., cost less accumulated depreciation) for the item is 6/10 of its historical cost.

It should be noted that when an item is removed from a "group" account, the annual depreciation of that group must be adjusted for the item deleted. For example, assume a group originally consisted of ten items costing $~~1~~5,000 in total and depreciated over ten years (depreciation expense is $~~100~~ 500 per year). If one item costing $~~100~~ 500 was sold after five years (50% of useful life) the computation of subsequent years' depreciation would be as follows:

Cost of remaining property ($~~1~~5,000 - $~~100~~500) = $~~900~~4,500

Divided by useful life of 10 years = $~~90~~ 450 annual depreciation

6. WRITE-OFFS

Amounts required to be written off through ~~abandonment~~ disposal or the loss should be recognized as expense in the property and equipment fund. The following illustrates the write-off of equipment originally costing $52,000 with accumulated depreciation of $46,000 at date of abandonment:

Dr: Loss on abandonment of equipment LSC Program Assets	$ 6,000	
Dr: Accumulated Depreciation - Furniture, Fixtures, and Equipment	$46,000	
Cr: Furniture, Fixtures and Equipment		$52,000

APPENDIX V ACCOUNTING FOR CLIENT TRUST FUNDS

1. Overview

The fiduciary responsibility that a program has for client funds requires that accounting procedures used result in timely and accurate accounting. Manual or automated record systems may be used, provided controls and data described below are available.

Client funds must be deposited in a separate bank account designated only for that purpose and not commingled with the program's operating funds. Additionally, a client trust accounting system must include procedures that allow for:

1. Documenting the receipt of a client's funds
2. Documenting the disbursement of a client's funds, and
3. Ascertaining at any time each client's balance held in trust

2. Procedure

Client trust accounting begins with the receipt of the client's funds at the receiving unit (i.e., local office) where a client trust receipt form is prepared. When properly prepared, this form contains all information applicable to the receipt (i.e., client name, case number, whether payment was cash, check or money order, amount received, and purpose for which the money is to be used.) The client is given a copy of the receipt as well as the case attorney. Funds are deposited at least weekly in the client trust checking account.

Disbursement of client funds involves the preparation of a check requisition and a three-part trust voucher. The check requisition is initiated by the case attorney and provides all information necessary to prepare a check and properly record the disbursement against the appropriate client's balance. The individual responsible for preparing the check must review the active client trust file to ascertain that sufficient funds have been collected previously from the client and have cleared through the bank before approving the disbursement. The original check will be disbursed to the payee, a copy should be given to the case attorney for the client file and the third copy will be maintained in accounting.

When a client's funds have been completely disbursed (i.e., the balance is zero) and the account marked "closed," it should be removed from the active file and placed in order in an inactive file. The recipient's Governing Body should establish a policy for the period the inactive file should be retained in accordance with guidelines established by the local or state bar association or state escheats laws. Normally, there is no need to retain this file more than five years.

At month's end, a reconciliation of client balances must be made. The total of client accounts must equal the reconciled cash balance in the checking account. The general ledger client trust cash account and client trust liability account should have monthly journal entries to account for any activity.

The client trust procedures should provide for periodically reporting on client trust balances which have been inactive for ~~a long period~~ more than six months. Reports on inactive client trust balances should be completed at least once per year and carried out consistent with the requirements of state law. This report ~~is~~ should be distributed to all program attorneys. The appropriate case attorneys should comment on the status and indicate if any follow-up is needed to return the funds to the client. If the funds should remain in the Client Trust Account, the client should be periodically notified of the existence of the funds. Where a case is closed and the client can not be located, programs should follow state escheat regulations to forward funds to the state.

Client trust accounts are not intended to be used when a program pays a client's court costs and expects to be reimbursed later. In this situation, a regular program check should be used instead of the Trust voucher check. ~~and a receivable from the client recorded in the amount of the disbursement. If it is subsequently determined that the client will not reimburse the program in full, the remaining receivable balance should be charged to litigation expense.~~

1. Tax Reporting

Not-for-profit organizations, such as most LSC recipients, are exempted from various federal, state and local taxes. However, they are required to file a number of tax returns and provide information about their activities to governmental bodies. These informational returns substantiate the organization's right to exemption from the various taxes. They also are used to determine tax liability for unrelated business income and other purposes.

All organizations exempt from tax under Internal Revenue Code (IRC) are required to file certain tax and information returns. A tax-exempt organization's filing requirements vary depending on the nature of the organization, its purpose and its activities.

Below is a list of tax and information returns which could be required. For specific details on applicable due dates and filing requirements, the IRC, applicable instructions for the form and/or related tax publications should be referenced. Consultation with the recipient's auditor will also be helpful.

Federal Forms:

Form 990 Return of Organization Exempt from Income Tax and all applicable schedules

~~Schedule A Supplementary Information to Form 990~~

Form 8282 Donee Information Return used by the original and successor donee organizations who sell, exchange, consume, or otherwise dispose of charitable property within two years after the original donee received the property.

Form 990T Exempt Organization Business Income Tax Return for organizations with gross income of $10,000 or more from an unrelated trade or business.

State Forms: ~~Currently, with the exceptions of Delaware, Kentucky, South Carolina, Texas and Wyoming, every state and the District of Columbia~~ Most states require the filing of some tax form by tax exempt organizations. Recipients should determine what forms are required for their particular state and organization.

2. Payroll and Miscellaneous Requirements

All organizations are required to file government forms related to the employment of personnel and withholding of taxes. Specific reports and forms, some informational and others requiring the payment of taxes upon filing, must be timely filed with appropriate governmental federal and state agencies. In addition to federal requirements, state and local requirements may apply. Penalties may be associated with late filings. Pervasive noncompliance could result in criminal penalties being assessed, in addition to monetary fines and interest.

An employer is required to maintain, use and/or file some or all of the following Internal Revenue Service (IRS) employment forms and tax returns:

SS-4	Application for Employer Identification Number
I-9	Employment Eligibility Verification
W-4	Employee Federal Withholding Allowance
8109	Federal Tax Deposit Coupon
941	Employer's Quarterly Federal Tax Return
941M	Employer's Monthly Federal Tax Return
945	Annual Return of Withheld Income Tax
945-A	Annual Record of Federal Tax Liability
940	Employer's Annual Federal Unemployment Tax Return
941C	Supporting Statement to Correct Information
W-2	Annual Wage and Tax Statement
W-2C	Statement of Corrected Income and Tax Amounts
1099-MISC.	Statement for Recipients of Miscellaneous Income
1096	Annual Summary and Transmittal of U.S. Information Returns
843	Claim for Refund and Request for Abatement
W-3	Transmittal of Wage and Tax Statement
W-3C	Transmittal of Corrected Wage and Tax Statement
8809	Request for Extension of Time to File
1099R	Distribution from Pension, Annuities, Retirement, IRA's, Insurance Contracts , etc.
W-4P	Withholding Certificate for Pension or Annuity Payments

Miscellaneous filings related to charitable contributions and the disposition of donated property require the following forms be filed:

Written Substantiation acknowledging the contribution of $250 or more for Donors wishing to claim charitable tax deductions; and

8282 Donee Information Return for Sale, Exchange, or Other Disposition of Donated Property.

3. Office of Management of Budget

Not-for-Profit Organizations that receive Non-LSC federal financial assistance also must follow cost and administrative requirements created by the Office of Management and Budget, the Cost Accounting Standards Board, and the federal agencies from which the not-for-profit organization receives its funds. The requirement standards for entities receiving governmental financial assistance are contained in a variety of pronouncements. The following is a list of circulars issued by OMB that apply to not-for-profit organizations:

A-133 Audits of Institutions of Higher Education and Other Non-Profit Institutions A-

A-122 Cost Principles for Non-Profit Organizations

A-21 Cost Principles for Educational Institutions

A-110 Uniform Administrative Requirements for Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.

APPENDIX VII ACCOUNTING PROCEDURES AND INTERNAL CONTROL CHECKLIST

The essence of an effective system of internal control is the segregation of duties in such a way that the persons responsible for the custody of assets and conduct of operations have no part in the keeping of, and do not have access to, the records which establish accounting control over the assets and the operations. Duties of individuals should be so divided as to minimize the possibility of collusion, perpetration of irregularities, and falsification of the accounts. The objective is to provide the maximum safeguards practicable in the circumstances, giving due consideration to the risks involved and the cost of maintaining the controls.

The following checklist is provided as a guideline for recipient's management to direct attention to practicable revisions of accounting procedures or internal controls which can be made to strengthen, improve, or simplify the existing system. This checklist should not be considered all-inclusive nor are all items considered necessary for all recipients. This is an area where recipients should utilize the expertise of their auditors in a continuing relationship to maximize the services an auditor can provide. ~~The items marked with an asterisk (*) are considered fundamental and essential elements of internal controls. There should be few legitimate reasons not to include these as part of each recipient's procedures.~~

A. GENERAL

1. Has a system of authorizations and approval been established to require appropriate managerial approval for all significant actions or financial transactions of the organization?

2. Has a chart of accounts been established which reflects ~~to identify~~ ~~all accounts in the accounting system?~~ all revenue sources, all categories of expenses, as well as all assets, liabilities and any contra accounts[4] .i.e., accumulated depreciation) to be utilized in the accounting system?

3. Does the organization use a double-entry accounting system and ~~with~~ a trial balance?

4. Are transactions in the accounting records properly authorized, as evidenced by supporting documentation containing the appropriate approving official's signature?

5. Are bank accounts and persons who sign checks authorized by the governing body?

6. Are employees and officers who handle assets or perform significant financial duties bonded?

7. Does the recipient prepare and its Board approve an annual overall financial plan or

[4] A "contra account" is a balance sheet account with a balance that is opposite (contra) to normal accounts in that category. For example, an Allowance for Doubtful Accounts within Accounts Receivable would be a contra account. Some other examples would be a Purchase Discounts or a Purchase Returns and Allowances account which would be contra accounts to Purchases; or an Accumulated Amortization account which would be a contra asset account crediting the Amortization account and off-setting the debit position.

operating budget to allocate its resources and provide a system of evaluation and control?

8. Are budget controls established and regular periodic financial reports reflecting actual revenue and expense compared to the approved budget generated which would ~~to~~ allow the program director to adequately control expenditures?

9. Are procedures established to provide a clean cutoff between accounting periods with respect to the recording of ~~support~~ revenue and expenses?

10. Has a general policy with respect to insurance coverage been defined and procedures instituted to insure that all significant business risks have been covered? Is insurance coverage periodically reviewed with a competent insurance agent?

11. Are adjusting journal entries adequately explained, supported, and approved by a responsible officer or employee?

12. ~~Does the recipient prepare and use an annual overall financial plan or operating budget to allocate its resources and provide a system of evaluation and control?~~

13. Does the recipient have an accounting and financial manual that ~~stipulates the financial duties of employees?~~ defines current processes used to meet LSC and other grant requirements and Financial Accounting Standards Board (FASB) standards?

14. Is there an organization chart to show definite lines of responsibility and authority?

15. Are employees required to take annual vacations, and are duties assigned to others in the absence of an employee on vacation or otherwise absent?

16. Are the accounting policies followed by the organization in agreement with those stipulated by their grants and contracts?

17. Where feasible, are costs accumulated into cost pools for later allocation of costs to each project, contract, and grant?

18. ~~Are bases~~ Is the method used to allocate indirect or common cost pools equitable and approved by the various funding organizations if required?

19. Is there a Cash Flow Statement to assure that adequate cash is available for the program to operate? Is Cash Flow Statement submitted monthly to the Finance Committee of the Board of Directors and quarterly to all Board members?

20. With limited exceptions as described in the LSC Accounting Manual, are all cash accounts held in financial institutions which are federally insured and are limited to the maximum insured limits or do bank institutions provide securities pledge for cash over the allowable FDIC amount?

21. Is there a board-approved policy that salary advances will be made in very limited, very specific circumstances or that no salary advances will be made under any circumstances?

22. Are two signatures required for all disbursements above a specific amount?

23. Are all funds received segregated by source and purpose into separate accounts in the general ledger to avoid any possibility of commingling grant funds? Are monthly financial statements including Balance Sheet and Statement of Revenues and Expenses being produced and submitted monthly to the Financial Committee; quarterly to Board of Directors?

24. Are the services of an Independent Certified Public Accountant engaged to conduct a formal financial audit for fiscal year-end?

25. Do fiscal staff receive periodic training?

B. PERSONNEL AND PAYROLL

1. Are salary and wage rates approved by a responsible manager ~~officer~~ in writing and are procedures adequate to provide that employees are paid in accordance with approved budget, wage, or salary rates?

2. Do procedures provide for the proper withholding and payment of applicable federal, state, and local income and payroll taxes and other voluntary employee deductions?

3. Are employees furnished information as to their earnings, deductions from earnings, ~~on their employee check stubs~~ , leave accrued, used and balance, etc.?

4. When employees are initially hired, do procedures provide for reference checks ~~and confirmation of prior salary~~ and employment data, and is documentation made of these procedures and maintained as part of the employees' files?

5. If direct deposit is not used, ~~Are~~ are payroll checks signed by persons having no part in preparing the payroll or if signed by machine, has management initialed the payroll register?

6. Are there written personnel policies prohibiting employment of individuals which could result in nepotism or conflict of interest?

7. Are the payroll bank accounts reconciled by employees who have no other functions with respect to the payrolls?

8. Do procedures followed in reconciling payroll bank accounts include the checking of names on pay checks against payroll records and the examination of endorsements on checks?

9. Is the reconciliation reviewed ~~critically~~ each month and signed by an officer or responsible employee?

10. ~~Is an independent test made of hours, rates, or other bases of payment by reference to attendance records, employment authorizations, approved rate changes, etc.by someone~~

~~not connected with the preparation or distribution of the payroll?~~

Is a review of each payroll done before processing to verify hours, rates, or other bases of payment by reference to attendance records, employment authorizations, approved rate changes, etc. by someone not connected with preparation or distribution of the payroll?

11. Are personnel policies established in writing?

12. Are employees' timesheets or reports of hours worked approved by the employees' supervisor for payroll purposes?

13. Are records kept on personnel actions including hiring, promotion, performance evaluation, dismissal, and resignation of both full-time and part-time employees?

14. Are labor hours charged (distributed) to projects, contracts, and grants based on time distribution records, which identify the total time actually spent by all individuals who charged time directly to projects, contracts, and grants?

15. Are payroll totals checked against labor distribution totals which are compiled from the original time records and are explanations provided for any variances where necessary?

16. Are payrolls disbursed from an imprest bank account restricted for that purpose and/or are the related bank transactions being reviewed periodically online?

17. Do the personnel and/or payroll records include the following or similar records:
    a. An attendance record?
    b. Vacation, sick and other excused leave records?
    c. Individual payroll record form?
    d. A payroll register?
    e. Notification concerning appointments, terminations, position classifications, and salary rates?
    f. A job description?

18. When employees work overtime, are there procedures to provide for (where applicable):
    a. Authorizing and paying overtime only to employees entitled to receive overtime pay?
    b. Recording earned and used compensatory time in lieu of overtime pay?

19. Where duties require employees to spend time away from their offices, do they ~~prepare reports~~ ~~disclosing~~ disclose their weekly or monthly activities?

20. Are duties of those preparing the payroll rotated?

21. Is a "tax return calendar" or other method used to insure timely preparation and filing of various payroll tax returns and are the returns reviewed?

22. When payroll checks are not direct deposited, is the payroll delivered and checks reviewed by someone other than the payroll preparer? If in-house, is the person

distributing the payroll checks different from the preparer?

23. Are the printed and computer Payroll and Personnel files (including benefits) locked or password protected and are the passwords in a secure location with limited access? Is the preparer's computer screen hidden from public view and does it automatically go to a password protected screen saver after a few minutes of inactivity?

24. If payroll is done in-house, are all checks pre-numbered and kept in a log listing any manual, spoiled or voided checks and is the log initialed by management or other responsible party not related to the payroll process?

25. Are payroll processing procedures in writing and included in the Accounting Manual?

C. PROPERTY CONTROL

1. Are records maintained for fixed assets purchased in excess of $~~1,~~5000 which provide the following information:
   a. Date of purchase?
   b. Description of item, including model and serial number?
   c. Cost and salvage value, if any, of item and check number of disbursement?
   d. Identification of funds used to purchase assets?
   e. Depreciation lives assigned to assets?
   f. Identification number and location of asset?

2. Are fixed-asset records for items with a cost in excess of the capitalization limit balanced to the general ledger control accounts periodically?

3. Are fixed assets tagged for easy identification with fixed asset records?

4. Are physical inventories taken at least once every two years and compared to fixed asset records?

5. Are adjustments (including adjustments resulting from theft, retirement and sale of assets) to fixed-asset records and general ledger control accounts reviewed and approved by an appropriate organization employee or officer who does not have responsibility for maintaining fixed-asset records?

D. PROCUREMENT

1. Are supplies in storage reasonably protected from theft, deterioration and damage?

2. Do procedures provide for the solicitation of prices for purchase, rent, and/or lease of fixed assets?

3. Do procedures provide that consideration will be given to the cost advantages of buying versus renting equipment and other nonexpendable property?

4. Are approved vendor lists used for recurring purchases?

5. Does the recipient have a systematic method for determining what supplies are needed and in what quantities?

6. Are prenumbered purchase orders used and appropriate authorization obtained prior to purchase, rent, or lease of equipment and supplies?

7. Are receiving documents prepared (e.g., receiving log or ticket) and inspection of goods made without reference to purchase orders?

8. Are invoices, purchase orders and receiving documents compared and accounted for by a person not having any other purchase or receiving functions?

9. Are purchase orders outstanding for long periods of time investigated?

10. Has prior approval from LSC been requested for purchases with LSC funds of real property, purchases or leases of personal property with a value of over $10,000 and capital expenditures of more than $10,000 to improve real property?

11. Do procedures provide for the solicitation of proposals or bids prior to entering into a contract that exceeds a specified dollar amount? Are these procedures consistent with the LSC Property Acquisition and Management Manual (66 Fed. Reg. 47695) when LSC funds are used?

E. LEGAL CONSULTANTS/CONTRACT SERVICES

~~1. Are procedures in effect to provide for formal approval by LSC, the governing body, or other high level authority, of consultant and contract service agreements over prescribed limits?~~

1. Are there adequate procedures to insure that the governing body (or other authority) and all necessary funding source approvals are obtained prior to entering into contracts?

~~3 Do procedures provide for the solicitation of proposals or bids prior to contract award?~~

2. Are contracts written so that the services to be rendered are clearly defined and properly executed?

~~5. Does the organization have controls for determining whether contracts are properly executed?~~

3. Are contract costs monitored to ensure that they are incurred within the appropriate fiscal year and do not exceed budget authority?

4. Are modifications to an existing contract made in writing and are future obligations adjusted to reflect the new contract?

F. TRAVEL

1. Does the organization have formal written travel policies including policies regarding travel requiring prior approval?

2. Is adequate ~~support~~ information and documentation (e.g., lodging receipts, air fare tickets) received from an employee and board member before reimbursement for travel expenses is made?

3. Are there adequate controls over the accounting for advances and reimbursements for travel expenses made to employees and board members?

4. For out-of-town travel, do employees and board members prepare trip reports documenting the reasons and/or the results of the trip?

5. Do travel reimbursement requests require documentation of the reason for the travel to ensure proper funding source accounting?

6. Before making travel reimbursement payments, does the accounting office review the prior payment to the employee or board member in order to avoid duplicate payments for the same expense?

G. CONTROLS OVER CASH DISBURSEMENTS – All Transactions

In the past when discussing cash disbursements, the focus was almost exclusively on how checks were processed. With current technology, today's cash disbursements may occur in a variety of ways, and may include the following in addition to traditional checks:

- Automatic and recurring bank withdrawals
- Telephone transfers
- Online Bill Pay options
- Internet/Web-based initiated transactions
- Wire Transfers (such as inter account transfers)
- Credit/Debit Card Payments

Whatever the method used, the end result is the same as if a check were written, funds will be withdrawn from your program's bank account. While the above options can be more convenient and save your staff time in making payments, accounting for and maintaining proper internal control can be a challenge. Recommendations that apply to all methods of cash disbursements follow:

1. Has your program's governing body addressed the issues of what disbursement methods are allowed, who is authorized to initiate them, what documentation needs to accompany the disbursements, and most importantly, which INDEPENDENT persons will REGULARLY & CONSISTENTLY review the supporting documentation?

2. Are independent, authorized signors logging into the program's bank account(s) on a regular basis, to review the variety of disbursement methods used to withdraw cash?

Logging in daily only takes 5 minutes, and goes a long way towards protecting program assets and strengthening internal control.

3. When ~~checks~~ disbursements (except payroll) are presented to authorized signors for review, are the supporting vouchers and invoices also presented?

4. Are there appropriate controls to assure that payments are made only for allowable items of costs, as defined by the terms of the respective contracts and grants?

5. Are written accounting policies and procedures established to describe the accounting system and assure that similar transactions are processed consistently?

6. Is there an appropriate system for filing checks, check copies, non-check disbursements, and supporting documents; and are supporting documents filed in such a manner so as to be readily located?

7. Are supporting documents marked paid or otherwise canceled and the check number, or other method of payment, and date of payment indicated to prevent duplicate payments?

.

~~2. Are all payments, except those made from petty cash, made by check?~~

~~3. Are persons who sign checks designated by the governing body?~~

G1. CONTROLS OVER CASH DISBURSEMENTS – Checks

1. Are all checks pre-numbered?

2. Are there procedures to insure that checks are never drawn payable to:
   a. Officers or employees with the understanding that the cash is to be used for organization purposes (other than for payroll, travel reimbursements, petty cash reimbursements, etc.)?
   b. Cash, bearer, or similar payee which renders the check payable to bearer?
   c. Other payee when the payee named is not intended as the party to retain the funds?

3. Are there procedures to insure that blank checks are never signed in advance?

4. Have there been procedures adopted to insure that the names of individuals once authorized as check signers are not retained in the signature lists on file with the banks after the individuals have left the employ of the recipient or have been transferred to duties incompatible with check signing?

5. Where a mechanical check signer is used, is the signature dye under adequate control?

6. Is a check protector used when necessary?

7. Are voided or damaged checks entered in the General Ledger as VOID and the checks retained and filed (in a void check file or in sequence with canceled checks)?

8. Do checks presented to a check signer for approval and signature include documentation supporting the expense?

G2. CONTROLS OVER CASH DISBURSEMENTS – Electronic Transactions

1. Has a password protected file been created to store user names and passwords used to access accounts and websites where disbursements can be initiated, and is this file accessible to authorized users only?

2. Are on-line banking passwords required to be changed periodically?

3. Have procedures been adopted to ensure that the names of individuals who have left employment or have been transferred to incompatible duties, have been removed from access to on-line, web-based accounts where disbursements can be initiated, or have the usernames and passwords been changed so they no longer have access?

4. Before initiating online transactions, has the balance of the bank account from which funds will be withdrawn been verified to contain sufficient funds?

5. If regular, recurring automatic bank account withdrawals are occurring, have you set up repeating batches in your accounting system, to anticipate cash flow needs, and to properly record the transaction in a timely manner?

6. Is a listing of the organization's regular online banking activities maintained for its regular electronic depositors and approved electronic vendors?

G3. CONTROLS OVER CASH DISBURSEMENTS – Credit/Debit Cards

1. Is personal use prohibited regardless of the fact that the employee is an authorized user?

2. Has your program considered setting a maximum dollar amount that can be charged, before prior authorization from an independent manager must be approved?

3. Are all cash advances or ATM withdrawals disallowed as program policy?

4. Does your program have a written policy as to how soon receipts need to be turned in?

5. Are procedures in place to insure that access is denied and the credit/debit card is returned by terminating employees, or those employees who are transferred to positions incompatible with the use of the credit/debit card?

6. Is there timely review and payment of credit/debit/vendor charge account transactions & supporting documentation, to validate disbursements and to avoid finance charges and late fees?

7. Have you developed a policy, that any personal and/or disallowed charges may be deducted from the employee's paycheck?

8. Have you developed a form that contains the above policies for your employees to review and sign off on?

H. CONTROLS OVER CASH RECEIPTS

1. Are cash receipts deposited currently and intact?

2. Does the accounting system identify the receipt and expenditure of program funds separately for each contract and grant requiring separate reporting?

3. Are bank-stamped duplicate deposit slips compared with the Cash Receipts Journal?

4. Does the employee who opens the mail list the receipts in detail in the cash receipts log and is this record used by someone independent of other accounting functions to verify the amount recorded in the general ledger and deposited in the bank?

5. Does the employee opening the mail, stamp "for deposit only payable to [program name]"on the back of checks received?

6. Is documentation which supports the funding source credited, saved with the deposit information?

7. In addition to manual deposits, automatic deposits, interest credited, and wired funds transactions may occur, are staff responsible for reviewing and recording these logging in with an authorized username and password, to regularly review and record these transactions?

I. BANK RECONCILIATION PROCEDURES

1. Are bank accounts reconciled monthly?

2. Does the reconciliation procedure include:

   a. Comparison of checks with check register ~~cashbook~~ as to number, date, payee, and amount?

   b. Examination of signatures and endorsements, and procedures for the return of inadequately endorsed checks, paid by banks, to the banks for proper endorsements?

   c. Examination of voided checks?

   d. Accounting for serial numbers of checks?

   e. Comparison of dates and amounts of daily deposits as shown by the cash receipts records with the bank statements?

f. Test-check of details shown on authenticated duplicate deposit slips obtained directly from the banks against the corresponding details in the cash receipts records?

3. Are proper journal entries made in the general ledger and check register for voided checks?

4. Are bank statements reconciled with the respective general ledger cash account?

5. Are bank accounts monitored during the month for wire transfers?

6. Are completed bank reconciliations reviewed by the Fiscal Manager and initialed?

7. Are checks which have been outstanding for more than six months investigated and resolved?

8. Are bank statements delivered unopened directly to the person preparing the reconciliation or management official for review prior to the reconciliation?

J. SEGREGATION OF DUTIES

1. Do the bookkeeper's duties exclude the following functions:
   a. Receive cash or checks?
   b. Open the incoming mail?
   c. Prepare bank deposits?
   d. Sign checks?

2. Does an individual other than the person who prepares the bank deposit slip actually deposit the cash in the bank and are the bank-endorsed deposit slips reviewed upon return from the bank?

3. Is the mail opened by a person who does not prepare the bank deposit?

4. Do the duties of the person preparing the bank reconciliation exclude:

   a. Posting to the books of account?
   b. Handling cash?
   c. Signing checks?

5. Are checks, after being signed, controlled and mailed out by an individual who does not have any other accounting duties?

K. PETTY CASH CONTROLS

1. Is there a board-approved petty cash policy?

2.. Is responsibility for the ~~a~~ petty cash fund vested in only one person per office/cash box?

3. Are petty cash vouchers:
   a. Required for each petty cash disbursement?
   b. Signed by the recipient of the cash disbursed?
   c. Executed in ink?
   d. Approved by a responsible person?

4. Are there restrictions on petty cash (that is, what it can be use for and maximum amount for each disbursement)?

5. Are petty cash disbursements evidenced by properly approved supporting data?

6. Are supporting data for petty cash disbursements checked at time of reimbursement?

7. Are petty cash reimbursements made payable directly to the petty cash custodian by name rather than to cash, bearer, etc.?

8. Are petty cash funds maintained on an imprest basis?

9. Are there procedures to insure that the cash receipts are not commingled with the petty cash fund?

10. When the petty cash fund is reimbursed, is a notation of payment made on supporting data to prevent duplicate payment?

11. Is there a policy to deal with overages/shortages/losses?

12. Is the petty cash bank account reconciled by an employee independent of the petty cash custodian?

13. Are petty cash funds audited by surprise counts by an independent person to insure the fund does not include personal checks, IOU's, etc., and that the petty cash fund balances? Is this part of the program's annual audit?

L. CLIENT ~~DEPOSIT CONTROLS~~ TRUST ACCOUNTS

1. Are client funds deposited into a bank account used only for the client's intended purpose?

2. Was the client trust bank account approved by the governing body?

3. Are two signatures required on checks?

4. Is the account reconciled by an individual not involved with client deposit operations?

5. Are pre-numbered receipts given to clients for all checks and cash received?

6. Are the following records maintained for the accounts?

   a. A receipts book with pre-numbered receipts.

b. A cash disbursements journal.

c. A detailed record of the activity for each client's deposit.

7. After several documented attempts to locate the client, are unclaimed client funds timely turned over to the state unclaimed funds account pursuant to state law?

M. ELECTRONIC BANKING

1. Does the organization have documented processes and procedures for its electronic banking activities including policies for: electronic deposits, wire transfers, on-line transfers, telephone transfers and electronic disbursements?

2. Are electronic banking activities understood and authorized by management?

3. Is a listing of the organization's regular online banking activities maintained for its regular electronic depositors and approved electronic vendors?

4. Are employees that initiate and transmit electronic transactions appropriately and specifically authorized to do so by management or the board?

5. Are electronic transactions timely reviewed and approved by someone other than the person initiating the transactions?

6. Are the bank accounts reconciled by someone who does not initiate electronic transactions?

7. Is the electronic activity posted to the general ledger by someone who does not initiate the electronic transactions?

8. Are employees with access to on-line banking software appropriately authorized?

9. Are on-line banking software users and privileges reviewed periodically?

10. Is on-line banking software access secure and monitored?

11. Are on-line banking passwords required to be changed periodically?

12. Are electronic transactions supported by adequate supporting documentation?

13. Are procedures in place to assure that electronic transactions are recorded to the proper fund or account?

14. Is access to the organization's payroll software authorized, controlled and secure?

15. Are payroll activities for electronic direct deposits regularly reviewed by an employee other than the person that prepares the payroll?

16. Are payroll activities including automatic electronic transactions processed using a designated payroll bank account that is separate from the organization's general bank account?

17. Has the organization researched and implemented banking safeguards and features that may be available with its banking institution?

APPENDIX VIII ~~**CORPORATION REGULATIONS SETTING ACCOUNTING POLICIES**~~

[PLEASE NOTE THAT APPENDIX VIII A "SUMMARY OF REGULATORY ACCOUNTING POLICIES" AND APPENDIX VIII B "LSC REGULATIONS' HAVE BEEN REPLACED IN THEIR ENTIRETY BY THE FOLLOWING]

APPENDIX VIII LIST OF LSC REGULATIONS

The following is a list of the regulations of the Legal Services Corporation – CRF 45 Part 1600 through 1644. Current versions can be found on LSC's website at http://www.lsc.gov/laws/regulations.php.

Table of Contents

1615 Restrictions on actions collaterally attacking criminal convictions

1616 Attorney Hiring

1617 Class Actions

1618 Enforcement procedures

1619 Disclosure of information

1620 Priorities in use of resources

1621 Client grievance procedure

1622 Public access to meetings under the Government in the Sunshine Act

1623 Suspension Procedures

1624 Prohibition against discrimination on the basis of handicap

1625 **[Reserved]**

1626 Restrictions on legal assistance to aliens

1627 Subgrants and membership fees or dues

1628 Recipient fund balances

1629 Bonding of recipients

1630 Cost standards and procedures

1631 **[Reserved]**

1632 Redistricting

1633 Restriction on representation in certain eviction proceedings

1634 Competitive bidding for grants and contracts

1635 Timekeeping requirement

1636 Client identity and statement of facts

1637 Representation of Prisoners

1638 Restriction on solicitation

1639 Welfare Reform

1640 Application of Federal Law to LSC recipients

1641 Debarment, Suspension, and Removal of Auditors

1642 Attorneys' fees

1643 Restrictions on Assisted Suicide, Euthanasia, and Mercy Killing

1644 Disclosure of case information

APPENDIX IX GLOSSARY OF TERMS

The following terms, some of which as defined by GAAP, are used throughout this Guide and are defined as follows:

Audit Committee

The audit committee, subject to the requirements of state law, is directly responsible for:

1. Hiring the auditor;
2. Setting the compensation of the auditor;
3. Overseeing the auditor's activities;
4. Setting rules and processes for complaints concerning:
   a. Accounting practices
   b. Internal control practices
5. Reviewing the annual IRS Form 990 for completeness, accuracy, and on-time filing and providing assurances of compliance to the full board.
6. Risk assessment, governance, compliance and ethics.

Board Designated Funds

An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated fund (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. The principal of board-designated fund, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets.

Contribution

An unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Designated Funds

Unrestricted funds set aside for specific purposes by actions of the governing body.

Donor-imposed Restriction

A donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the nature of the organization, the environment in which it operates, and the purposes specified in its article of incorporation or bylaws or comparable documents for an unincorporated association. A restriction on an organization's use of the assets contributed may be temporary or permanent.

Encumbrances

Commitments in the form of orders, contracts, and similar items that will become payable when goods are delivered or services are rendered.

Endowment Fund

An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for profit organization. The use of the assets of the fund may be permanently or temporarily restricted endowment funds are generally established by donor-restricted gifts and bequests to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The principal of a permanent endowment must be maintained permanently--not used up, expended, or otherwise exhausted--and is classified as permanently restricted net assets. The principal of a term endowment must be maintained for a specified term and is classified as temporarily restricted net assets.

Expendable funds

Funds that are available to finance an organization's program and supporting services, including both unrestricted and restricted amounts.

Finance Committee

The finance committee's role, subject to any requirements of state law:

1. Revises budget and makes recommendations to the full board of directors;
2. Reviews monthly financial statements with chief financial officer, controller and/or CPA;
3. Reviews accounting and control policies and makes recommendations for changes

and improvements;

4. Reviews the audited financial statements, management letter, and senior staff's response with staff and auditor;
5. Regularly reviews and makes recommendations about investment policies;
6. Coordinates board training on financial matters. Acts as liaison between full board and staff on fiscal matters.

Financial Oversight Committee — A group of board members appointed to provide assistance to the board of directors in fulfilling its fiduciary responsibilities relating to accounting and reporting practices, and to maintain a direct line of communication between the board and the independent accountant.

Functional Classification — A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program services and two types of supporting activities: management and general, and fundraising.

Fund — An accounting entity established for the purpose of accounting for resources used for specific activities or objectives in accordance with special regulations, restrictions, or limitations.

Natural expense classification — A method of classifying expenditures according to their natural classification, such as salaries and wages, employee benefits, supplies, purchased services, and so forth.

Net Assets — The excess of assets over liabilities.

Non-reciprocal Transfer — A transaction in which an entity incurs a liability or transfers an assets to another entity (or receives an asset or cancellation of a liability) without directly receiving (or giving) value in exchange.

Not-for-Profit Organization — An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interest like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees.

Permanent Restriction — A donor-imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets.

Permanently Restricted Net Assets — The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other assets enhancements and diminishments subject to the same kinds of stipulations, and (c) from classification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Reclassifications — Transfers of amounts from one net asset class to another, usually as a result of the release or lapsing of restrictions.

Restricted funds — Funds whose use is restricted by outside agencies or person as contrasted with funds over which the organization has complete control and discretion.

Restricted Support — Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets.

Revenues — Gross increases in assets, gross decreases in liabilities, or a combination of both from delivering or producing goods, rendering services, or other earning activities of an organization during a period, for example, dues, sale of services, ticket sales, fees, interest, dividends, and rent.

Segregation of Duties — An internal control procedure which prohibits an individual from being placed in a position of being able to both commit and conceal an irregularity.

Stipulation — A statement by a donor that creates a condition or restriction on the use of transferred resources.

Support — A statement by a donor that creates a condition or restriction on the use of transferred resources.

Temporarily Restricted Net Assets — The part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other assets enhancements and diminishments subject to the same kinds of stipulations, and (c) from classification to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

Temporary Restriction — A donor-imposed restriction that permits the donee organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of organization.

Unrestricted funds — Funds that have no external restriction on their use or purpose, that is, funds that can be used for any purpose designated by the governing board as distinguished from funds restricted externally for specific purposes (for example, for operations, plant, and endowments).

Unrestricted Net Assets — The part of net assets of a not-for-profit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Voluntary Health and Welfare Organizations — Organizations formed for the purpose of performing voluntary services for various segments of society. They are tax exempt (organized for the benefit of the public), supported by the public, and operated on a "not-for-profit" basis. Most voluntary health and welfare organizations concentrate their efforts and expend their resources in an attempt to solve health and welfare problems of our society and, in many cases, those of specific individuals. As a group, voluntary health and welfare organizations include those not-for-profit organizations that derive their revenue primarily from voluntary contributions from the general public to be used for general or specific purposes connected with health, welfare, or community services. (Receipt of an LSC grant is not a basis for determining that an organization is a voluntary health and welfare organization for financial statement reporting purposes.)

BIBLIOGRAPHY

1. Financial Accounting Standards Board Accounting Standards Codification of Generally Accepted Accounting Principles (ASC):

   ASC 710 Compensation – General July 2009 (Statement 43)
   ASC 958.205, 210, 225, 230 Presentation of Financial Statements; Balance Sheet, Income Statement & Statement of Cash Flows July 2009 (Statement No. 117)
   ASC 958.320 Investments – Debt & Equity Securities July 2009 (Statement No. 124)
   ASC 958.605 Revenue Recognition July 2009 (Statement No. 116)

~~1. Financial Accounting Standards Board of the Financial Accounting Foundation~~

~~Statements of Financial Accounting Standards Numbers: 116 -- Accounting for Contributions Received and Contributions Made June 1993; and 117 -- Financial Statements of Not-for-Profit Organizations. June 1993; Norwalk, Connecticut~~

2. American Institute of Certified Public Accountants Audit and Accounting Guide, Not-For-Profit ~~Organizations~~ Entities as of ~~June 1, 1996~~ March 1, 2009. ~~New York~~

3. Gross, Malvern J., Jr., McCarthy, John & Shelmon, Nancy, Financial and Accounting Guide for Not-for-Profit Organizations. 7~~5~~th Edition, New York, John Wiley & Sons, Inc. ~~1995~~ 2005.

4. ~~Foster, Mary F. Miller GAAP for Not-For-Profit Organizations 1996/97 New York, Harcourt Brace, 1996~~

5. ~~Accountants for Public Interest What a Difference Preparation Makes: A Guide to Nonprofit Audit, Washington, DC 1992~~