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## **FINANCE AND ACCOUNTING POLICIES**

### **GENERAL**

HOPE Services and The Foundation for HOPE (collectively referred to as "HOPE") maintain their accounting records on the accrual basis of accounting, in accordance with general accepted accounting principles promulgated by the American Institute of Certified Public Accountants ("AICPA"). The accrual basis of accounting essentially stipulates that revenues are recognized or recorded when earned, not when realized, as in cash receipts; and expenses are recognized or recorded when incurred, not when paid.

HOPE prepares its annual financial statements specifically in accordance with provisions of Statement of Financial Accounting Standards No. 117 ("SFAS 117"), which require not-for-profit organizations to segregate their assets, liabilities, and operations into three categories. These categories are: *unrestricted, temporarily restricted and permanently restricted.*

HOPE accounts for contributions and "promises to give" specifically in accordance with Statement of Financial Accounting Standards No. 116 ("SFAS 116"), wherein contributions received, including unconditional "promises to give" (pledges), are recognized as revenue at their fair value in the period or year the contributions are made. SFAS 116 also requires that not-for-profit organizations distinguish between contributions that increase the aforementioned three categories of net assets (or assets less liabilities), with recognition made of the expiration of donor-imposed restrictions in the period or year such restrictions expire.

### **FISCAL YEAR**

HOPE accounts for its financial operations and income tax returns on the basis of a fiscal year beginning on July 1<sup>st</sup> and ending on June 30<sup>th</sup> of each calendar year.

### **CHART OF ACCOUNTS**

HOPE maintains its chart of accounts on the following basis:

<b><u>Category</u></b>	<b><u>Account Number Range</u></b>
Assets	1000 to 1999
Liabilities	2000 to 2899
Net Assets	2900 to 2950
Revenues	4000 to 4999
Expenses	5000 to 8999

Revenue and expense accounts are created and maintained for each department, and are summarized into income and expense reports. These reports are further grouped by district or similar reporting level.

### **ANNUAL BUDGET**

Prior to the beginning of each fiscal year, HOPE will prepare an annual budget in sufficient detail with respect to revenue sources, salaries and wages, and other operating expenses for each program. Such budget will realistically reflect the organization's financial requirements for achieving planned goals and objectives for the upcoming year.

The annual budget will be presented to the Executive Committee of the Board of Directors for its review and approval prior to the end of the then current fiscal year.

During the budget year, HOPE will monitor and report to the Board of Directors its operational adherence to the approved budget on a monthly basis, and correct or explain any significant deviation from such budget.

### **ANNUAL AUDIT**

At the end of each fiscal year, HOPE will engage an independent firm of certified public accountants ("independent auditor"), in good standing with the AICPA and the State of California, to perform an examination of the annual financial statements in accordance with auditing standards generally accepted in the United States of America. The primary purpose of the examination is for the independent auditor to render an opinion on such statements as to their conformity with accounting principles generally accepted in the United States of America.

The Audit Committee of the Board of Directors will be responsible for the selection and engagement of the independent auditor, and will oversee and receive the final report of such independent auditor.

The report and accompanying annual financial statements will be made available to interested parties, including the general public upon its request for their reasonable use.

The independent auditor will also prepare the annual income tax returns, Federal Form 990 and California Form 199, for filing with the appropriate government agencies. Copies of such returns will be made available to the public at its request.

### **REAL AND PERSONAL PROPERTY**

Real and personal property acquired through purchase will be capitalized as a long-lived asset if the purchase amount exceeds \$1,000 and such asset is expected to have a service life of more than a year.

Enterprise type computer software purchased from an outside and independent vendor will be capitalized; however, costs associated with any internally developed software or database will not be capitalized. Desktop software available on a retail basis will not be capitalized because of their low cost and frequent version modifications.

Long-lived assets that individually cost less than a \$1,000 will also be capitalized if such assets are acquired in lots that exceed \$1,000. However, exceptions will be made on a case-by-case basis if the circumstances are unusual.

Except in rare or unusual circumstances, all long-lived assets will be depreciated or amortized over the lesser of their useful lives or the original term of the lease in the case of real property improvements. Useful lives generally range from 3 years to 40 years, depending on type of property.

No real or personal property owned by HOPE can be used for any religious activity.

### **RECORD RETENTION**

In general, accounting records will be retained for seven complete fiscal years, except for the following categories:

1. Accounts receivable invoices: 3 years;
2. Accounts payable vendor invoices and/or supporting documents, i.e. vouchers: 3 years;
3. Journal entry vouchers: 3 years; and
4. Payroll change forms, i.e. PANs: 3 years.

Payroll timesheets, labor distribution, and tax filing reports, as well as payroll and accounts payable cancelled checks are in electronic format, either on CDs or on online storage, and will be retained at least 5 years.

Accounting records such as the general ledger and financial statements, as well as payroll earnings data are on online storage and will be retained indefinitely.

## **INVESTMENTS**

### **GENERAL**

The purpose of an investment policy is to provide guidelines and controls for the management of the investments of HOPE Services and The Foundation for HOPE (collectively referred to as "HOPE"). The primary objectives of such management shall be:

- Preservation of restricted funds or endowment funds,
- Appreciation of unrestricted funds,
- Generation of reasonable investment income with respect to the restricted funds, and
- Maintenance of liquidity, meaning that all funds will be invested in cash and cash equivalents, and readily marketable equity and fixed income securities, unless otherwise approved by the respective governing boards of HOPE.

The Investment Committee of the HOPE Boards of Directors and Trustees will provide oversight of the investment function.

### **INVESTMENT GUIDELINES AND CONTROLS**

The concept of limiting risks and protecting principal is an integral part of the investment policy objectives. However, to maximize investment income and appreciation in principal, recognition is given to the inverse relationship of financial growth versus risk limitation and preservation of

principal. Accordingly, a balance between such objectives will be forged with respect to unrestricted and restricted funds that result in prudent investment choices.

**Portfolio Management** - Preference of a financial manager and/or financial management firm will be given to institutions demonstrating commitment of support for the activities of the Foundation. The financial management firm must have a minimum of \$100,000,000 of assets under management.

**Investment Growth** - The restricted funds of the Foundation will be invested with the objective of preserving principal while generating a competitive rate of return.

Unrestricted funds will be invested for the appreciation of capital. The Investment Committee has the fiduciary responsibility to seek out and monitor performance of money managers to ensure a competitive rate of return in relation to popular indices such as the S & P 500, Russell 2000, etc.

The Investment Committee will meet with management professionals and agree as to what rate of return is expected, what the current risk tolerance should be, and over what period of time. However, in the absence of a stated expected annual rate of return, a rate of 5% above the current rate of inflation, as measured by the CPI, will serve as a minimum expected annual rate of return.

**Investment Selection** – All action with respect to selection of investments in cash and cash equivalents, fixed-income securities or equity and equity related securities shall be at the discretion of the investment managers selected by the Investment Committee.

**Portfolio Account Selection** - All cash investments, except cash managed by financial management firms, shall be deposited only in those institutions which provide federally insured banking accounts, or shall not exceed the upper limit of the institution's insurance guarantee.

**Investment Portfolio** – Investment portfolios, depending on whether unrestricted or restricted funds, will include investments in cash equivalents, equities, and fixed income securities in keeping with the stated primary objectives. The general descriptions of investments are:

- cash may be placed in interest-bearing checking and savings accounts or in other market instruments as U.S. Treasury Bills, commercial bank certificates of deposit, or money market funds;
- bonds and notes issued by the US Treasury Department;
- investment grade fixed-income securities such as straight nonconvertible bonds or preferred stock issues of U.S. or foreign corporations that are rated by Moody's Investors Service Inc., or by Standard & Poor's Corporation;
- investment grade convertible bonds, convertible preferred stocks, of U.S. or foreign corporations that are rated by Moody's Investors Service Inc., or by Standard & Poor's Corporation;
- common stocks of U.S. or foreign corporations that are traded on the NYSE, NASDAQ, and other major U.S. exchanges under oversight of the SEC, and
- mutual funds that are regulated by the SEC; and assets invested in such funds must be managed in accordance with the investment policies, procedures and guidelines set forth in the prospectus for these funds.

**Investment Restrictions** - All assets acquired with restrictions as to investment or sale shall be managed in strict accordance with the objectives relating to restricted funds. Additionally:

- No more than 20% of the portfolio will be invested in any one corporation.
- Dividends shall be reinvested or otherwise handled at the discretion of the investment managers.

## **ELECTRONIC MEDIA**

### **GENERAL**

HOPE Services and The Foundation for HOPE (collectively referred to as "HOPE") maintain an extensive electronic media infrastructure, which includes equipment, software, data and communication lines. This infrastructure is intended for the sole purpose of conducting HOPE business in furtherance of its mission. Accordingly, all data will be regarded as the property of HOPE.

Users of this infrastructure should not expect any right to privacy concerning management's access to any personal information stored on any media device therein. Users are not permitted to use such infrastructure for activities that are illegal, religious, of questionable merit or value, for personal profit, or contrary to the interests of HOPE.

### **INTERNET ACCESS**

HOPE will monitor user access to internet websites. Due to potential liability, HOPE will make every effort to block access to any pornographic or illegal sites, and prevent downloads of copyrighted material.

Music and video downloads require a tremendous use of bandwidth on our lines, as well as storage capacity in our storage devices. Bandwidth on our lines is, or will fast become, a precious resource as we also begin to use it for VoIP purposes. Thus, such downloads will be monitored and precluded if for personal consumption. As examples, access to "YouTube", "Napster", or similar sites will be blocked.

### **EMPLOYEE HANDBOOK**

Our Employee Handbook contains detailed explanations of protocols and sanctions for violations with respect to electronic media. Specific reference is made to two sections:

- Software policy; and
- Internet / electronic communications and security policy.

The contents of these sections are incorporated here by reference.

## **CONTRACTS AND AGREEMENTS**

### **LEASE AGREEMENTS**

All agreements for the lease of real property for terms of more than one year, and involve annual rental payments, including for property taxes and maintenance, exceeding \$25,000, must be reviewed and approved by the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer.

Any agreements for the lease of equipment or other personal property for terms of more than one year, and involve annual rental payments exceeding \$3,000 must be reviewed and approved by at least a Senior Manager and the Chief Financial Officer.

### **SECURED DEBT AND BANK BORROWINGS**

All secured debt and bank borrowings, including revolving lines of credit, must be reviewed and approved in advance by the Board of Directors, or at least the Executive Committee of the Board of Directors. Execution signatories will be in accordance with provisions contained in the HOPE Articles of Incorporation and By-Laws.

### **VENDOR TRADE ACCOUNTS**

Vendor trade accounts, which are used for the ordinary course of HOPE business, may be opened or established by the Senior Manager or his/her manager designee, with a notice to the accounting department. Purchases on these accounts will be made through established or recognized procedures and practices. This will include the use of purchase orders through our purchasing system, or in other means of written communications. In all cases, proper managerial approvals must be obtained for these transactions.

### **OTHER**

Aside from the usual agreements that involve obligations, as described in preceding sections, other contracts or agreements that involve monetary arrangements under \$25,000, or are of a recurring or routine nature in the ordinary course of business, can be executed by the Senior Manager whose program is directly affected by such agreement or contract, or by the Chief Financial Officer. Examples of these types of contract and agreements include the following:

- Santa Clara Valley Medical Center (Short-Doyle program);
- United Way of Silicon Valley;
- Lease of space by De Anza College;
- Savers contracts for salvage goods;
- Grants procured by Development; and
- Commercial contracts with customers for goods and services.