

**A. ACCOUNTING AND FINANCIAL MANAGEMENT**

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## **I. Accounts Payable and Cash Disbursements**

### **Overall**

The recording of assets or expenses (for both goods and services) and the related liability (hereafter Accounts Payable) should be made for only valid transactions with appropriate supporting documentation. The Accounts Payable account shall be reconciled periodically by the Department, but not less than once a year. Individuals with check signing authority are identified and authorized at a Department level; information concerning such authority is provided to P Street.

The Department is responsible for establishing Accounts Payable and Cash Disbursement operations that provide at a minimum for the following:

- a) authorized knowledgeable personnel determine account distribution;
- b) payment for goods and services, whether accomplished by cash, check or bank transfer, should be organized to ensure that no unauthorized payments are made and that complete and accurate records are established and kept (see guidelines on record retention);
- c) supporting documentation (i.e. invoices) should be cancelled to prevent subsequent reuse;
- d) adequate controls exist over the custody of blank checks and disposition of void checks;
- e) two signatures are required on checks for disbursements in excess of \$50,000 (except that a Department may adopt routine practices that necessitate two signatures at an amount lower than \$50,000); and
- f) use of manual checks is minimized.

The Department will make cash disbursements at the latest acceptable time without affecting relationships with contractors or vendors. The Department will also take advantage of early payment discounts when available. Manual checks are recorded promptly in order to provide P Street's Accounting Office with accurate cash requirements to ensure proper cash management. The Department will e-mail the Financial Accountant at P Street's Accounting Office information on any manual check in excess of \$50,000 not recorded at the close of business on Friday.

### **Petty Cash**

The Business Office makes a determination about whether to establish a petty cash fund (hereafter Fund) for minor purchases and reimbursements of goods and services upon presentation of written and approved documentation. If established, the Departmental Business Office establishes the amount of the Fund balance based on needs; in no circumstances will the amount exceed \$500.

The Director of Administration and Finance will review the existence of petty cash funds every three years and make a determination, based on input from the Department, on the need to continue such Funds.

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All petty cash funds are subject to unannounced reviews and audits at the discretion of the Department Director, Business Manager, Financial Manager, and the Director of Administration and Finance.

### Petty Cash Procedure:

#### Employee:

An employee may be reimbursed for small, out-of-pocket expenses from a petty cash fund when available. To be reimbursed, an employee completes a "Receipt of Petty Cash" slip and attaches the applicable receipt(s). A designated individual, referred to as the Petty Cash Designee (PCD), supplies the reimbursement slips and distributes the petty cash.

#### Office:

The PCD shall maintain a petty cash fund in a locked box in a locking desk drawer or other locked medium (e.g., cabinet). In the absence of the PCD, the petty cash responsibility falls on another designated person.

In order for petty cash to be granted, the following steps are followed:

1. An individual petty cash request may not exceed the maximum allowance of \$75.00 per transaction.
2. Petty cash disbursements are evidenced by a petty cash slip that is completely filled out, signed by the requestor and the requestor's supervisor (or other individual who has authorized the expense), and has the appropriate receipt attached. If the expense is less than \$25, no receipt is necessary, but the supervisor's signature and indication of business purpose is needed.
3. If the requestor is the PCD, the Petty Cash Authorization Form must be approved by the Business Manager or designee, *before* the cash is disbursed.
4. The petty cash fund will always be equal to \$500, or a lower designated ceiling amount, including all cash and receipts.

On no less than a quarterly basis, the PCD will submit the petty cash box, along with a Check Request Form, to a designated individual, for reconciliation. If necessary, replenishment and reconciliation may be executed any time during the quarter. The submittal of the petty cash box and any receipts shall take place at least quarterly.

The Business Office will prepare the quarterly Petty Cash Reconciliation that includes the purpose and the use of funds, account number to be charged, cash-on-hand count by denomination, and amount needed to replenish the fund. This form, along with the check request form or its equivalent, petty cash vouchers, and all

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receipts, will be submitted for inclusion in the following week's check run. The replenishment check will be made payable to "Name/Petty Cash."

### **Check Processing**

It is the policy of the Institution to ensure prompt payment of all invoices, reimbursements, and other commitments.

All check payments will be processed via a check run schedule set by the Department's Business Office and adjusted from time to time as necessary:

In order to make a payment, responsible individuals shall submit complete documents to the Business Office according to the announced schedule. For internal control purposes, checks are almost always mailed directly to vendors. If a responsible individual has a letter or application form that must accompany a payment, that individual should send it to the business office along with the appropriate payment request form. In exceptional circumstances based solely on its determination, the Business Office will provide vendor checks to third parties or to an individual requesting or approving payment.

Below is a list of items that will generate an accounts payable check, along with important information associated with each category:

Please see the Expenditure Approval section under V – Additional Operating Procedures for specific approval requirements.

Invoice Payment requires **one** of the following sets of documents:

1. An invoice; a purchase order, check request form, or its equivalent; and signed receipt of goods/services;
2. An invoice and a blanket purchase order release; or
3. An invoice; purchase order, check request form, or its equivalent; for non-receivable items when the amount and description on the purchase order and invoice match exactly.

Travel Advance. In general, travel advances are not made (see Section J – Travel) except for special circumstances. For a payment to be made, the traveler submits the required form and justification to the Business Office. When travel advances are made, a traveler must submit an Expense form within 30 days of completion of travel to the Business Office documenting the expenditure of the advance. The Department permits only one outstanding advance at a time, per individual.

Travel Expenses are reimbursable items associated with travel already taken and are reviewed in accordance with the policies set forth in Section J -- Travel. Please note the following:

1. Actual expenses must be documented, and a receipt for all items, except per diem meals, must be included with the expense report. In general, receipts are required for reimbursement subject to a reasonable test (e.g., payment of bridge

- tolls may not be accompanied by paper receipts). Expenses must be actual amounts and shall not be rounded to the nearest dollar.
2. Meal reimbursements must list all attendees and specify any alcohol consumed.
  3. Mileage is reimbursed at the current federal rate, listed on the IRS website.
  4. Any applicable Travel Advances should be reflected on the report.
  5. Exchange Rates - All foreign travel reimbursements that require conversion into U.S. funds should be submitted in the foreign currency. Do not calculate the exchange rate yourself. The Business Office will research and use the exchange rate on [www.oanda.com/convert/classic](http://www.oanda.com/convert/classic) for the date of the receipt. However, if the employee has a receipt showing the exchange rate used when the expense was incurred, the Business Office will use this rate for the specified expense, and only the specified expense.
  6. Payments require an approved Travel Expense Form.

If you are charging a grant for your travel, note the following:

1. Travel costs charged to the grant may not exceed the government per diem rates set for meals and lodging. See Section J – Travel. Contact the Business Office for per diem rates.
2. All foreign travel charged to a grant must be specifically permitted by the grant. In other words, it must be pre-authorized, either in the grant by the awarding agency or on a trip-by-trip basis.
3. All flights must be on a U. S. flag carrier (please see section on U.S. flag carriers).
4. Alcoholic beverages are neither directly nor indirectly grant-reimbursable and must be identified.

Check Requests are for non-travel reimbursements. Payments require a Check Request Form or its equivalent (e.g., Purchase Requisition Form) and applicable notes and receipts.

### **Voided Check Procedure**

On occasion, it may be necessary to void and re-issue an accounts payable check. When this happens, the following procedure must take place:

1. An individual will notify the Business Office that the check needs to be voided.
2. A responsible individual in the Business Office will void the check in the accounting system. An appropriate record, with documentation, will be maintained in a special VOID check file.
3. The responsible individual will write “VOID” across the face of the check in large letters, as well as in the AP log next to the check number, and send the voided check to P Street. A copy should be kept at the Department.
4. The responsible individual will initial and date the new check number in the AP check log.

5. The Business Office may decide whether a *stop payment* order should be placed on a voided check. In general, it is not cost effective to place *stop payments* on checks of nominal value, generally less than \$35.

### **Stop Payment Procedures**

If a check is confirmed lost, stolen, or destroyed, the Business Manager, in conjunction with P Street, will determine whether a stop payment order should be requested. The action taken will depend on the factors involved, such as the stale date and the amount of the check. Each case will be determined individually.

Typically, the Business office will call the Carnegie Institution's financial institution to stop payment. Once the stop payment has been issued, the confirmation number will be noted on the A/P voucher packet for future reference. The paper confirmation is mailed to P Street.

If the check needs to be reissued, the corresponding original voucher packet will be used as back up. The recipient's address should be verified before re-issuing the check.

### **Terms of Payment**

The most commonly used payment terms are:

1. Net 30 Days. Payment of the entire invoiced amount is to be made within 30 days from the date of the invoice.
2. Net 10th prox. Payment of the entire invoiced amount is to be made by the tenth of the month following the month of the invoice date. ("Prox" is a synonym for "proximo," meaning in or of the month following the present month.)
3. 1% or 2% 10 days, net 30 days (or 60 days). Payment made within 10 days from date of invoice may be discounted 1% or 2%. The invoice becomes overdue 30 or 60 days from the invoice date.
4. 1 % or 2% 10th and 25th. Payment may be made on bills dated between the first and fifteenth of the month by the twenty-fifth of the month, and invoices dated between the fifteenth and the thirtieth may be paid by the tenth of the following month and a 1% or 2% discount may be taken on these invoices.
5. 1% or 2% 10 days EOM. A 1% or 2% discount may be taken if the invoices are paid by the 10th of the month following the month the invoice was issued. Thus, the 10-day discount period starts counting at the "end of the month" after the invoice date.

Cash discounts are often offered by the seller as an incentive to the buyer to make prompt payment. While cash terms are generally uniform within an industry or trade group, they are usually negotiable and form an integral part of the contract. The Business Office, in cooperation with any responsible individuals in the Department, will assess the economic value of using cash discounts.

In general, the Department does not accept "Net 0" terms. This means that the invoice is payable upon receipt; the Business Office is not set up to handle this. If an emergency arises, please contact the Business Office to arrange payment.

### **W-9 and 1099 Reporting Requirements**

All Business Offices and P Street must comply with W-9 and 1099 reporting requirements. These requirements are summarized here; full details are available on the IRS website, [www.irs.gov](http://www.irs.gov).

#### *Who must provide a W-9?*

A W-9 should be obtained from anyone you make payments to during the course of your trade or business. Obtain a W-8 from any person to whom you are making a payment who you believe to be a foreign person. Failure to obtain Forms W-9 or W-8 and failure to withhold as required by the IRS can result in penalties for non-compliance.

#### *Who is exempt from receiving a 1099 MISC?*

Only true 'C' corporations, non-profit organizations and government entities are normally exempt from reporting. Payment for legal services is reportable even if provided by a corporation.

Limited liability corporations (LLC), S-corporations, partnerships, and limited liability partnerships (LLP) are NOT exempt.

Remember that a Federal ID number (XX-XXXXXXX) does not mean the recipient is a C-corporation, as these numbers are issued to a variety of organizational forms and even individuals.

#### *What types of payments must be reported on Form 1099-MISC?*

The following must be reported:

Payment of at least \$600 for rents, services, and medical and health care payments. That is \$600 or more per payee for the calendar year regardless of the amount of an individual payment.

Payments of at least \$10 for royalties.

Payments of at least \$600 to attorneys for legal services. If a payment is made in connection with legal service, but the attorney's fee cannot be identified as a discrete amount, the total paid in connection with legal services must be reported.

*What about reimbursements of expenses to non-employees?*

If you receive an invoice without receipts to substantiate the purchase of materials, supplies, or other expenses (fax, phone, photocopies) specified on the invoice, you must report this reimbursement along with the fee for services.

If you receive an invoice for services and documented other expenses, enter these in Navision (NAV) in the same invoice but on separate lines. Make sure that the 1099 Liable box for each line is marked correctly so that only the taxable portion is reported on the 1099 Form.

*What about reimbursement of travel expenses to non-employees?*

The same rule applies; if you have receipts, you can exclude it from the 1099.

## **II. Credit Cards**

It is the policy of the Carnegie Institution of Washington that credit card issuance is determined by operational need and approved by the Department Director or the Director of Administration and Finance. Each credit card holder is responsible for his or her own account. Credit card issuance is done on a limited basis.

Credit cards are used as a payment method in accordance with authorities and responsibilities set forth throughout Carnegie's policies and procedures (see in particular Sections A – Accounting and Financial Management, C – Grants and Awards, and G – Procurement. Typically, credit cards are used for travel and for small purchases.

Each cardholder must abide by the following guidelines:

1. The cardholder may not “lend” his card to anyone else, or allow anyone else to use his or her account.
2. The cardholder can only make charges against general ledger accounts that he has authority over.
3. The cardholder may not use the Carnegie issued credit card for anything other than official Carnegie business purposes.
4. The cardholder must keep all receipts and submit them immediately upon request. This will ensure prompt payment and avoid finance charges.
5. P Street's Office of the Financial Manager receives and pays a monthly statement for all Carnegie cardholders upon implementation of an institution wide system (see Other Considerations below). Business managers are responsible for compiling full supporting documentation of expenditures and approvals from the cardholder. Releases/purchase orders/receipts should be attached directly behind the statement.
6. Once the required material is received back from the cardholder, the Business Manager or official at P Street will review and sign the monthly statement to indicate that the guidelines, above, have been met.
7. Any Business Officer, who is also a card holder, will have expenses reviewed by the Department Director. Any cardholder in P St. will have expenses reviewed and approved by the Director, Administration and Finance. If the Director, Administration and Finance is a cardholder, his/her expenses will be reviewed by the President.

A cardholder's privileges may be suspended or canceled at any time, for any reason, with or without warning, should the Department Director or the Director of Administration and Finance determine it is in the best interest of the Department and the Institution to do so.

Additional Considerations

In general, Carnegie's policy is to issue credit cards through a single provider. A Department with unique requirements not met through the single provider may seek an exception to this policy with appropriate justification, subject to approval by the Department Director and the Director, Administration and Finance. Any existing, separate, departmental credit card programs in existence as of July 2006 are grandfathered into existence, but will be reviewed periodically under this requirement by the Department and the Director, Administration and Finance.

When authorizing the issuance of a credit card to an individual, the Director establishes a spending limit, the amount that cannot be exceeded in a given period. This amount is reviewed by the Director, Administration and Finance.

In September 2009, Carnegie began the process of modifying its credit card program to provide employees with business cards with on-line access. Upon the effective date of implementation, employees and departments are required to follow the procedures related to these business cards.

### **III. Fixed Assets**

This section outlines the basic policies and procedures for fixed assets for the Carnegie Institution of Washington and its Departments (hereafter CIW) including:

1. Classifications
2. Capitalization and Depreciation
3. Additions, Replacements, Repairs and Maintenance
4. Physical Inventory and Fixed Asset Reconciliation
5. Disposal
6. Non Expendable Items
7. Purchasing Fixed Assets

#### **General**

CIW defines fixed assets as follows: property acquisitions (by purchase or construction) of non-expendable items with a cost of \$5,000 or more and with a useful life of more than one year (hereafter fixed assets). Fixed assets are capitalized and, when appropriate, depreciated over their useful life using the straight-line method.

Departments physically tag all fixed assets (if feasible) and have policies and procedures safeguarding against misappropriation or misuse of fixed asset tags.

CIW's policies and procedures for fixed assets ensure the following:

1. prevention of unauthorized acquisitions
2. control over fixed assets and their related records to ensure all recorded fixed assets exist and are in use as prescribed by CIW
3. safeguards against loss, damage or theft
4. the cost for each acquisition is accurate, complete and recorded in the appropriate period
5. accurate calculation and recording of depreciation expense and accumulated depreciation
6. periodic physical inventory of fixed assets is reconciled to records
7. control over the disposal of fixed assets
8. distinguish repair and maintenance expenses from fixed asset acquisitions
9. compliance with OMB Circular A-110, subpart C
10. fixed asset disposals are accurately recorded in the general ledger and the fixed assets module

CIW conducts periodic reviews of general liability and property insurance coverage to ensure such coverage is adequate protection against loss.

At minimum, fixed assets records shall include the following information:

1. description of equipment
2. manufacturer's serial number, model number or other identification number
3. source of funding

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4. acquisition date and cost
5. location
6. disposition data, including date of disposal and sales price (if applicable)
7. grant award number (if any)
8. whether title vests with CIW or federal awarding agency
9. information from which one can calculate the percentage of federal participation in the cost of the fixed asset (not applicable to fixed assets furnished by a federal awarding agency)
10. condition of the item at the time inventory is taken

Fixed assets purchased or constructed with grant funds (governmental or private) are used only for the purpose authorized by the granting agency or organization. Written approval is obtained from the granting agency or organization for a change in use or disposal of fixed assets in accordance with applicable grant requirements; absent specific requirements, such approval is obtained for assets with a net book value of \$500 or more.

### **Classifications**

Each fixed assets category is defined as follows:

*Land-* shall include the purchase price of real estate, incidental costs associated with acquisition such as legal fees, title insurance and costs associated with preparation such as surveying, clearing and landscaping.

*Buildings-* shall include the purchase price of the structure and costs incurred to ready a building for occupancy.

*Building and leasehold improvements-* shall include the costs of fixtures (central air conditioning, plumbing, boilers, furnaces and non-removable fixtures such as built-in bookcases) and new additions to an existing building (e.g., a new wing).

*Scientific-* shall include the purchase or construction costs of assets used principally for research, including computer, data processing equipment and software.

*Administrative-* shall include the purchase or construction costs of the following:

- a) office furniture and equipment, including (but not limited to) desks, chairs, movable partitions, communication systems
- b) transportation vehicles such as automobiles, vans and trucks
- c) computer, data processing equipment and software not used principally for research activities

*Telescopes-* shall include all costs to construct the basic structure, exclusive of instrumentation and separable, discrete components.

*Works of Art and Historical Treasures-* shall include the purchase price of paintings, sculptures and other similar items whose recognized cultural, aesthetic or historical value, and generally already long existence, have established the asset as one whose economic

benefit or service potential is used up so slowly that the amount related to a particular accounting period is of no consequence (i.e., the value of the asset is not expected to depreciate but rather, in many cases, appreciate).

*Construction in progress*- shall include the costs of constructing a building, telescope, or similar assets. Costs may include: materials, labor, overhead, professional fees and permits.

## **Capitalization and Depreciation**

### **Capitalization Policy**

Property acquisitions (by purchase or construction) of non-expendable items with a cost of \$5,000 or more and with a useful life of more than one year shall be capitalized.

A fixed asset's cost includes the purchase price or construction costs, plus:

1. Gain on any trade-in allowance (subject to federal awarding agency approval in the case of federal funds)
2. Taxes and duty
3. Transportation costs, including insurance
4. Costs of preparing the fixed asset for use

Items purchased as a group (e.g., table and set of chairs to be used together as a unit) may be capitalized as one asset if the total cost of the group is \$5,000 or more.

Fixed assets can be acquired through the use of funds from the following sources:

1. Endowment
2. Federal Grants
3. State and Local Grants
4. Private Grants
5. Combination of two or more of the above-mentioned sources

Fixed assets acquired with federal grant funds should generally be capitalized since title to most federally funded fixed assets vests with CIW at the time the fixed asset is acquired. In those cases where the federal agency does not grant title to CIW, the fixed asset(s)' data will be maintained in the inventory ledger of the Fixed Assets module of the accounting system in order to comply with grant requirements. For those assets acquired with a combination of federal and endowment funds (i.e. shared assets), only the portion of the fixed asset purchased with endowment funds shall be capitalized (only applicable in those cases where title does not vest with CIW).

### **Depreciation**

A fixed asset shall be depreciated over its estimated useful life using the straight-line method of depreciation. The estimated useful life of each classification of fixed asset is as follows:

1. Land – Land is not depreciated.
2. Buildings – Fifty (50) years.
3. Building and leasehold improvements – Twenty-five (25) years or the remaining term of the lease.
4. Scientific – Five (5) years. May be shorter or longer depending on the particular fixed asset, as assessed by scientific staff.
5. Administrative – Five (5) year. May be shorter or longer depending on the particular fixed asset.
6. Telescopes – Fifty (50) years. May be shorter or longer depending upon the assessment of senior scientific staff.
7. Works of Art and Historical Treasures – These assets are not depreciated.
8. Construction in Progress – No depreciation is recorded on these fixed assets until the project is completed and the costs transferred to specific fixed asset accounts.

### **Additions, Replacements, Repairs, and Maintenance**

Increases to or extensions of existing fixed assets (e.g., installation of central air conditioning, addition of a wing) are called “additions.” Additions shall be capitalized as a separate fixed asset by charging the appropriate fixed asset account.

CIW maintains adequate maintenance procedures to keep fixed assets in good condition and working order. Ordinary repairs and maintenance are expenditures made to maintain physical assets in operating condition. These expenditures shall be charged to an expense account in the period in which they are incurred.

Major repairs that materially add to the value or materially extend the useful life of the fixed asset should be capitalized. In these cases, the original cost and the major repair costs should be depreciated over the new useful life of the fixed asset.

### **Physical Inventory and Fixed Asset Reconciliation**

#### **Physical Inventory**

Beginning in fiscal year 2009-10, each Department performs a physical inventory of fixed assets every year in compliance with the Property Standards of OMB Circular A-110, which states:

“(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two 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. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.”

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In conducting the physical inventory, all departments and P Street follow these operating procedures:

1. There shall be a master list of all equipment kept in the Business Office. The Business Office shall begin the physical inventory process by using the master equipment list.
2. The Business Office shall identify individuals throughout the Department who have responsibility to verify the existence of equipment and to assure that information is provided to the business office so that all equipment is recorded on the master list. In some cases, the Business Office may identify a person responsible for certain equipment throughout the department (e.g., computer equipment meeting the \$5,000 threshold). In other instances, a PI or lab director may be responsible for identifying and recording equipment within a specified physical area.
3. Individuals designated by the Business Office are responsible for verifying the existence of the equipment; assuring that all equipment is recorded; attesting that equipment is in use; and verifying a continued need. Equipment to be disposed shall be done in accordance with disposal procedures described below.
4. The Business Office is responsible for verifying that this process is thorough and complete. This may include room-to-room searches of a sample of items to verify the accuracy of information, meeting with designated individuals to make sure they complete the inventory in a thorough manner; and carrying out such other activities as may be appropriate.
5. In general, Departmental equipment meeting the threshold will be tagged in some manner.

The Department's Business Manager maintains proof of the fixed asset inventory. In addition, modifications to the date base are accomplished in a timely fashion.

### **Fixed Asset Reconciliation**

On a quarterly basis, Departments shall:

1. enter acquisitions and disposals (including sales) of fixed assets into the inventory ledger in the Fixed Assets module of NAV;
2. reconcile the cost of the fixed assets per NAV to that recorded in the general ledger; and
3. forward completed worksheet for each asset type to the P Street Financial Accountant in charge of fixed assets.

On a quarterly basis, P Street shall:

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1. run Fixed Asset reports from FAM to verify that departments have recorded assets identified in step 2, above
2. run depreciation report from FAM, and compare accumulated depreciation to the trial balance in order to determine current depreciation; and
3. prepare a draft journal entry to record the current depreciation total as depreciation expense, fixed asset disposals, and any other quarterly fixed asset activity.

Detailed instructions are available from the P Street Accounting Office. Quarterly fixed asset packages are due to the P Street Accounting office in accordance with the announced closing schedule.

### **Disposal**

#### **Retirement**

The fixed asset cost and related accumulated depreciation shall be removed from the appropriate fixed asset accounts upon disposal due to lack of usefulness, obsolescence, theft, loss, or destruction.

#### **Obsolescence**

If a fixed asset becomes obsolete before the expiration of its assigned useful life, the un-depreciated cost shall be charged to expense. The fixed asset cost and related accumulated depreciation shall be removed from the appropriate fixed asset when the Department disposes of the fixed asset.

#### **Process**

All equipment to be discarded will be turned over to the Facilities Manager, the IT Manager, or an individual designated for handling scientific equipment, as appropriate. The Facilities Manager, IT Manager, or individual designated to handle scientific equipment will determine, along with the appropriate party, whether the item is no longer of any use or value to the Department. The individual will then inform the Business Office as to what items will be discarded or how the item will be redeployed, so that inventory records can be kept current.

If the asset is donated to another nonprofit, the Business Office should obtain official documentation from the other nonprofit to this effect.

#### **Sale**

When a fixed asset is sold, the cost and related accumulated depreciation shall be removed from the appropriate fixed asset accounts.

In general, the sale of any fixed asset should be incorporated into the budget process. A Department contemplating the sale of a fixed asset should:

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1. provide a rationale for selling the fixed asset and an explanation of how the funds will be used;
2. document estimated market value; and
3. request the President's approval to sell the fixed asset and add the market value to the Department's budget.

The Department will be provided with any approved budgeted amounts equal to the actual proceeds of the sale. The actual addition to the Department's budget will not take place until the sale has been executed and the proceeds realized. This will prevent any problems arising from situations where the actual proceeds turn out to be less than estimated.

In those cases when a Department determines it should sell a fixed asset outside the budget process, approval from the President or a designated individual must be obtained prior to the sale. Upon approval, the Department shall be credited with the actual proceeds of the sale.

**Non Expendable Items Not Capitalized**

CIW has determined that it is both prudent and sound business practice to keep track of certain non-expendable items not meeting the minimum capitalization requirement (\$5,000 or more) with a cost of between \$2,000 and \$5,000. The P Street Accounting Office shall determine the accounting treatment of these items.

Non-expendable items not capitalized shall be subject to indirect costs on all grant proposals submitted after July 1, 2002. Such items are not subject to the annual physical inventory of fixed assets.

The following is a partial listing of examples of non-expendable items not capitalized with a cost of between \$2,000 and \$5,000:

1. desktop and laptop computer systems, including monitors
2. printers
3. copiers
4. fax machines
5. scanners
6. video and/or audio recording equipment
7. televisions
8. VHS and DVD players
9. precision tools, laboratory equipment and other such items

Each Department is responsible for ensuring:

1. identification of such non expendable supplies to ensure cost is charged to appropriate general ledger account, project or personnel code
2. periodic review of the non expendable supplies not capitalized to safeguard against unauthorized, unnecessary or duplicate purchases of such items
3. non expendable supply items listings, records, analysis or the like may be subject to outside, independent verification, i.e., external auditors

Departments may choose to take periodic physical inventory, perform expense fluctuation analysis and such other procedures best suited to the individual need of the Department to monitor spoilage of non-expendable supplies.

When one of these assets is to be discarded, it should be turned over to the Business Manager, Information Systems Manager, or Facilities Manager, as appropriate, for determination as to whether it is still useful and usable.

In no circumstances should currently “useful” assets be given away to employees for personal use.

### **Purchasing Fixed Assets**

#### **Purchasing Equipment**

The Business Office should be notified as soon as a purchase over \$5,000 is requested. All fixed assets are assigned a sequential inventory number. The Business Office is responsible for keeping track of fixed assets. Inventory is taken every year; this policy, instituted in 2009, will be periodically reviewed. The results are recorded and kept on file.

#### **Purchasing Equipment on a Grant**

For grant funds, Fixed Asset Equipment is broken down into the following: Federal Equipment, Pass-Through Federal Equipment, and Private Grant Equipment.

The following account numbers apply in Navision.

#### **\$5000 AND OVER**

- 69100 - Endowment Equipment \$5000 and over
- 69120 - Private Equipment \$5000 and over.
- 69130 - Pass-Through Federal Equipment \$5000 and over.
- 69140 - Federal Grant Equipment \$5000 and over

#### **UNDER \$5000**

- 681xx - Non-Capitalized equipment is categorized by asset type rather than funding type using g/l number series 681xx. There are separate accounts for computer hardware and software. The Funder number used to record the expense can be used for classifying by Federal, Pass-Through, Private, or Endowment funding source when needed. 61220 – Computer supplies/accessories should be used for items with a life expectancy of less than one year, e.g., mice, cables, thumb drives.

#### **IV. Revenue, Receivables and Cash Receipts**

This section outlines the policies and procedures for revenue recognition, receivables and cash receipts for the Carnegie Institution of Washington (hereafter CIW) and its Departments. Exceptions to these policies and procedures will occur at the business office located in Chile (LCO). Exceptions and compensating controls related to LCO will be addressed .

##### **P Street Responsibilities**

In general, entries related to revenue recognition, receivables and cash receipts are recorded primarily at the P Street Accounting Office. In some instances, this authority is delegated to a department for specific items.

The Accounting Office at P Street is responsible for ensuring the following:

1. timely and accurate recording of all revenue (including but not limited to contributions, grant revenue and investment income)
2. maintenance of receivables (including but not limited to grant, pledges and investment receivables) to ensure accurate and complete receivable records in a manner to indicate the length of time the receivable has been outstanding
3. an effective system of cash management that provides for:
  - control over all cash and checks received, ensuring prompt deposit in CIW's bank accounts
  - protection against misappropriation
  - adequate planning to satisfy cash needs
  - a reasonable cushion for emergencies
  - investing any excess cash in income-producing instruments; and
  - timely preparation of bank and investment account reconciliations.

In addition, note should be made of the following:

1. CIW does not currently generate program income. If CIW did, the controls in place ensure that such receipts would be properly accounted for and reported on.
2. Earnings on contributions or grants are applied only when the donor or funder requires it as a term of the gift or grant.
3. CIW maintains a separate investment policy under the direction of the Finance Committee of the Board of Directors.
4. CIW receives donated services intermittently, and these are to be measured, valued, and accounted for in the general ledger.
5. All non cash contributions, including contributions-in-kind, must be reviewed by the Director of Finance and Administration and the Financial Manager prior to its acceptance by CIW.

## **Departments**

In general, departments do not record transactions in CIW revenue accounts; recording revenue is usually done by the Accounting Office at P Street. If there is a need for a department to record revenue, they may do so after consultation with the appropriate Accounting Office personnel at P Street to assure proper and consistent treatment of all such transactions.

Departments may generate receivables in the form of travel advances and reimbursement of personal expenses (i.e., personal long distance telephone calls, the use of facilities in Inverness, California ) from personnel, and reimbursement from other institutions for the use of a Department's resources (i.e., the Las Campanas Observatory). Each Department is responsible for ensuring accurate billing, collection, deposit and recordation of these receivables and cash receipts. Departments have the flexibility to determine whether to use the receivables granule in the accounting system to facilitate the recording of such transactions. In general, those departments having a high volume of receivables will use this granule in order to take advantage of the efficiencies involved. All departments have the responsibility to ensure accurate and timely deposit and recordation whether the granule is used or not.

Cash receipts from revenue sources (i.e. patents, royalties, grants, gifts) may at times be inadvertently mailed directly to a Department by third parties instead of to the P Street Accounting Office. In such cases, the Department will deposit the check and forward a copy and all accompanying documentation to the P Street Accounting Office to the attention of the Financial Manager. Departments should keep a copy of the check and any accompanying documentation for their records.

Wire transfers are on occasion received in payment of a Department's billing for reimbursement of expenses. The Financial Systems Accountant in the P Street Accounting Office will notify the Department's Business Office so that an entry may be made to credit the appropriate expense or advance account(s). In the case of a wire transfer in a foreign currency denomination, the information will be sent to the Department once the equivalent US dollar information is received from CIW's commercial bank.

## **Receiving Checks and Cash**

All checks and cash received at the Department are to be processed through the online check deposit system or deposited locally. All checks that are received at the Department shall be immediately handed over to an individual designated to make a control list of all incoming cash and checks ("cash control individual" or CCI). This individual should store the cash and checks in a locked box in a secure area (e.g., a locking desk drawer). No other employee is authorized to hold checks or cash for any reason. If an employee needs information from the checks, he should photocopy the checks for his records.

Incoming receipts should be processed in the following manner:

1. All checks should be endorsed "For Deposit Only" by CCI upon receipt.
2. The CCI makes a control list of all incoming receipts.

3. For departments participating in the online check deposit system, the CCI should follow the procedures in the section Online Check Deposit. In departments not participating in the online check deposit system or for the deposit of cash and ineligible items the CCI turns the checks, cash, a copy of the control list and related information over to the Business Office for deposit at the end of each week or when checks totaling \$100,000 or more are accumulated (whichever comes first). If the CCI is located in the Business Office, then the individual arranges for the bank deposit, assuring that there are appropriate checks and balances by requiring an independent review, or preparation, of such material by another individual.
4. The copy of the deposit slip stamped by the bank must be returned to the CCI for review. The CCI will initial the deposit slip after he has verified the deposit total matches the sum of his control totals for the period of time covered by the deposit.
5. The CCI will forward the initialed deposit slip to the appropriate person in the Business Office so that the deposit can be journalized, again assuring that there are checks and balances if the CCI is located in the business office.
6. If the deposit is mailed in to the bank, and the stamped deposit slip is returned to P Street, a copy of the deposit ticket will be faxed to the CCI at the department.
7. If there is a discrepancy between the stamped deposit ticket and the control lists that cannot be accounted for, the matter should be discussed with the P Street Accounting Office.

### **Online Check Deposit**

All Departments, with the exception of the BBR campus and LOC, should use the SunTrust Online Check Deposit service for depositing all qualifying checks they receive. Departments on the BBR campus may elect to use online check deposit by notifying the Financial Manager. Cash and non-qualifying financial instruments will be deposited according to the check processing procedure described in the Receiving Checks and Cash section of this document. Online check deposit (sometimes referred to as Remote Deposit Capture) allows incoming checks to be scanned and images transmitted electronically to the bank. Since the checks we receive are not being physically transferred to the bank, we are responsible for ensuring that the scanned items are only processed one time. We are also responsible for safeguarding the checks during the designated holding period and then destroying them in accordance with legal requirements.

### **Storage and Destruction**

1. Each participating department will be provided with and use an approved check scanner. Each department will be responsible for safeguarding the scanner and maintaining it. Problems with the scanner should be reported immediately to the Financial Manager or the Deputy Financial Manager.
2. Each participating department should identify and use a secure storage location such as a safe, locked cabinet or locked desk for storing processed checks during the required holding period.
3. Each participating department shall have a paper shredder or other HQ approved means of destroying processed checks after the required holding period.

## **Personnel**

1. Each participating department shall identify one or more individuals who will operate the check scanner, i.e., deposit checks online.
2. The check scanner operator (CSO) shall not be the CCI. The CSO shall not hold the scanned checks after processing nor dispose of them after the holding period. The Business Manager is responsible for determining that there is appropriate segregation of duties to meet internal control requirements.
3. The Business Manager will notify the Financial Manager or Deputy Financial Manager of any changes in personnel performing the check scan function.
4. The identified users will be reported to SunTrust and they will receive their user id and password directly from SunTrust. The id and password are strictly confidential and shall not be shared with anyone either within CIW or outside. Report lost, stolen or compromised id codes immediately to the Financial Manager or Deputy Financial Manager so that SunTrust can be notified to block access to the system should anyone try to use the access code. Users should change their password if they believe it has become known.
5. No one other than the CSO is to use the check scanner and associated software. The CSO shall not use the scanner without proper training and an understanding of the responsibilities and requirements for using the scanner.
6. Scanner users shall be subject to periodic reviews to ensure they are following the procedures and policies.

## **Check Handling**

1. Departments need to follow the same control procedures defined in the section on Receiving Checks and Cash with regard to designating a CCI, preparing control lists, safeguarding checks and endorsing checks upon receipt.
2. Upon receipt the CCI should separate items eligible for imaging from those not eligible for imaging and record them on 2 separate lists. The following are acceptable for deposit through SunTrust Online Check Deposit:

- Checks denominated in U S currency that are drawn on financial institutions located in the United States
- Money Orders
- Traveler's Checks
- Cashier's Checks

All other items including cash are considered to be not eligible and will need to be physically deposited at the bank following CIW procedures. In addition, items with illegible or missing account numbers or bank routing numbers in the *Magnetic Ink Character Recognition* (MICR) line at the bottom of the check must also be physically deposited.

3. The CCI should not hold checks for more than 3 business days if at all possible. The CCI should give the batch, the Scanner Batch form, and an item list to the CSO. The CCI should keep a log of the Scanner Batch forms and a copy of the item list.
4. The Scanner Batch form should include the following fields:
  - Batch number
  - Total amount from the item list

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Date given to scanner operator

CCI sign off

Date scanned and transmitted to SunTrust (from deposit receipt)

Deposit number from the deposit receipt

Amount scanned; this should agree with the item list after adjustments for ineligible items

Scanner operator sign off

Target destruction date; 30 days after transmission

Actual destruction date

Destroyer signoff

A template is available.

5. The CSO, upon receipt of the batch and Scanner Batch form, should confirm that the checks are eligible for scanning and have been endorsed. Any items not eligible for scanning should be returned to the CCI for inclusion with the physical deposit batch. Any suspicious items should also be excluded and brought to the attention of the Business Manager. Both CSO and the CCI should note the discrepancies on their copy of the item list.
6. The CSO should not accept a batch if it cannot be processed in a timely manner.
7. The CSO will log on to the SunTrust system, enter the dollar amount of the deposit, scan each check, review the deposit, especially for image quality, and make corrections, submit and confirm the deposit, and print a deposit receipt. The CSO will log off after the process is completed. The CSO should enter the deposit amount and deposit number from the deposit receipt on the Scanner Batch form.
8. A copy of the deposit receipt should be given to the CCI who will compare it to the amount on the list prepared with the batch. Any discrepancies should be reported to the Business Manager. If the Business Manager is the CSO, the discrepancies should be reported to the Financial Manager or the Deputy Financial Manager.
9. A copy of the deposit receipt should be given to the person responsible for entering the deposit in NAV along with any documentation.
10. The scanned checks and the original Scanner Batch form should be given to the person responsible for safeguarding the checks until the destruction date.
11. Scanned checks should be destroyed as scheduled. The person destroying the checks should fill in the destruction date on the Scanner Batch form, sign off, and give the Scanner Batch form to the designated person for filing.

## **V. JOURNAL ENTRIES**

Carnegie's accounting system, Serenic Navigator (NAV), has a number of subledgers (e.g., accounts payable and receivables) that indirectly affect the general ledger. The policies and procedures governing those subledgers, transactions, and related journal entries are reflected elsewhere under Accounting and Financial Management and/or are imbedded in the accounting system, as noted in Section VI, Additional Policies and Procedures.

Certain transactions require that journal entries be entered directly. Such transactions are typically adjustments, transfers, corrections, or other approved purposes not handled within a subledger. Although such journal entries should not be used frequently, they fulfill an important need to maintain accurate financial reporting.

All departments and P Street have the authority to enter journal entries. Journal entry forms may vary in format but shall contain the following elements: posting journal, posting date, g/l account number, speedkey, dimensions and/or balance accounts. All journal entry lines include a short notation that describes the transaction. The notation and any accompanying comments should permit an independent observer to understand the purpose for the entry. Journal entries may be prepared in various formats including excel templates, excel files for import, or entered directly into NAV, including using/modifying a saved recurring/standard journal in NAV.

All journal entries must be supported by underlying source documents; there are no exceptions. Source documents will vary based on the transaction; examples are invoices, cash receipts, credit memos, travel vouchers, cancelled checks, and payroll records. Source documents may exist in either paper or electronic format. Further, source documents may be stored within NAV or in external files. All source documents must be maintained in accordance with record retention requirements.

Each journal entry requires the involvement of two separate individuals -- the journal entry preparer (JEP) and the journal entry approver (JEA). The JEP completes the required numeric information, as specified by NAV and Carnegie's chart of accounts; the notation or explanation for the entry, including accompanying comments; and the type of transaction. The JEA reviews and approves the journal entry for completeness and accuracy prior to its posting in the general ledger. A single individual may perform both the JEP and JEA functions, though never on the same entry. Both the JEP and the JEA should sign and date the journal entry. This signature can take one of several forms including directly signing a journal entry form, signing the test report, signing the excel printout of the import, using the NAV approval workflow, or by email.

The journal entry may be input and posted by the JEP, the JEA or a third individual. NAV assigns an internal control number to each transaction that includes the name of the person posting it. Once posted, the documentation related to the journal entry must be filed and maintained.

Journal entries may not be posted directly to the primary AR-12110 or AP-21100 without the approval of the Financial Manager or Deputy Financial Manager. In addition to the JEA, all non-payroll expenditure corrections and reallocations impacting direct or pass-thru

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federal funds must be approved by the Senior Grants Accountant, the Financial Manager or the Deputy Financial Manager. In addition to the JEA, all effort, allocated leave and/or allocated fringe corrections and reallocations must be approved by the Senior Grants Accountant, the Financial Manager or the Deputy Financial Manager. All revenue corrections and reallocations must be approved by the Financial Manager or the Deputy Financial Manager who may also be the JEA.

A specific requirement exists regarding “reclass” entries within NAV. Beginning with fiscal year 2009-10, all must use the field "reason code" on the NAV journal entry form. If you prepare a journal entry, where you do a reclass and at least one of the funds is a federal or pass-through award, make sure that you select "RECLASS" from the look-up list in the Reason Code field in the NAV journal entry form. This code should be attached to both the debit and credit side of the entry even if some of the funds are not federal/pass through. P Street will monitor journal entries; if a Reason Code is missing, the journal will need to be reversed and reentered with that code included.

To clarify, a reclass entry is considered to be one where you are changing the original/previous posting. Typical reasons for a reclass are coding/data entry errors, discovery of unallowable costs, or cost overruns, to name a few. If you are making a reclass that exclusively involves only private and/or endowment funds, you do not need to use the RECLASS reason code. If you inadvertently mark it as reclass, you do not need to reverse and reenter.

As a data entry tip, you may need to use the show column feature to get this particular one to show on the journal entry form. It may be a good idea to move it closer to the description field rather than leaving it at the far right side. You should also add this column to your standard journal entry form in excel that you use for writing up journal entries. The correcting payroll journal entries you send to P St for posting should have this column and lines should be marked as appropriate.

Finally, many journal entries involve recurring transactions. Departments should seek guidance from P Street concerning the treatment of unique or one-time transactions.

## **VI. Additional Policies and Procedures**

### **Accounting System**

The Carnegie Institution of Washington currently uses Serenic Navigator (NAV) as its accounting system. This system also contains policies, procedures, and controls related to a number of financial management, reporting, and operational responsibilities. Access to NAV, and determining the roles that individuals may perform in the system, are determined by the Financial Manager and the designated Financial Accountant at P St., in consultation with the Business Offices in the Departments. The policies, procedures, and controls for accessing and using NAV, and the control features within the software, are incorporated by reference in this document and therefore constitute policies, procedures, and controls of the Carnegie Institution.

The Financial Manager will periodically issue guidance concerning the handling of certain transactions within NAV, including coding. This guidance must be followed by all users of NAV.

Users are also provided ongoing instructions, technical assistance, and training concerning the use of NAV. All users are required to master these materials as necessary to perform their responsibilities. The ongoing instructions and assistance is incorporated by reference into the operating procedures of the Institution and are made available as reference materials for all users. An example of such instructions is provided below.

#### **HOW TO ENTER A MANUAL CHECK OR WIRE PAYMENT**

1. Enter the invoice as you would any other obligation.
2. Go to Cash Management, Payments Journals and select batch name for your department and type of payment. There is one for manual checks and one for wires.
3. Go to the Payments button and select Suggest Vendor Payments.
4. On the Vendor tab add the Responsibility Center field if not there and select your department code.
5. On the Options tab fill in the Last Payment Date, leave the Summarize per Vendor box unchecked, chose Posting Date, check the New Doc. No. per Line box, Payment Method leave blank, Bal. Account Type should be Bank Account, Bal. Account No. should be your bank account, and Bank Payment Type should be Manual Check or Electronic Payment as appropriate.
6. Run Suggest Vendor Payments
7. Highlight and delete (F4) any line items that were not paid by manual check.
8. For Manual Checks: If there is a number in the Document No. delete it and replace with the actual Manual Check number. For Electronic payments a default number will fill this field.

9. Clear out the Balance Account No. box for each line.
10. Add a new line for each unique document number; this will record the payment. Account Type should be Bank Account and for Account No. select your bank from the list. The remaining dimensions should default in. Enter the credit amount to balance the entry.
11. Select Preview Distributions and then Run Validation Process. If it passes validation, go ahead and post and print.

Users identify the need for support through a system that is created for this purpose. Responses under this system are monitored by P Street, including Information Systems and Financial Management staffs.

### **Accounting Treatment of Significant Items**

From time to time the Director of Administration and Finance and the Financial Manager shall issue definitive memoranda describing the accounting treatment of significant issues and transactions, such as the valuation of investments. Such memoranda shall facilitate the presentation of the Institution's financial statements. Departments may assist in the preparation of these memoranda.

### **Financial Statements**

Carnegie produces its financial statements on an annual basis. They are prepared on the accrual basis of accounting. Significant accounting policies are reflected in the footnotes to the financial statements. Carnegie arranges for an independent audit of its statements of financial position, as reflected in the by-laws of the Institution and under the authority of the Audit Committee of the Board of Trustees. The independent audit is presented to the Audit Committee of the Board of Trustees. Carnegie makes audited financial statements available to the public on its website.

### **Approval of Expenditures: Mandatory Approvals**

The Department Business Office will track all persons authorized to approve expenditures charged to each account or group of accounts. Requisition approval for expenditures is necessary. Written or emailed approvals are acceptable (in lieu of an automated procurement system), and will be attached to the hard copy PO. Approval authority may be transferred by authorized signature through a statement to the Business Office.

### **Contact List**

Each Department shall from time to time post contact information for basic services and problem solving related to accounting and financial management. Such information may be integrated into Departmentwide directories.

### **Safe Procedures**

Any safe which houses valuables shall be secured and never be left open (unlocked) and unattended, even for the briefest period of time. Except when removing or replacing valuables, check stock, negotiable instruments or critical documents, the safe will remain locked. A limited number of individuals should be provided with access to the safe.

Two people must be present whenever the safe is opened in order to gain access to its contents.

- If there is any reason to believe the combination code or keys have been compromised, the Business Office must be notified immediately. The Business Office will arrange for the safe to be re-keyed and/or the combination changed and the new keys and/or combination will be distributed to the appropriate individuals.

Individuals with access to a safe should sign a document indicating awareness with these procedures; this document is kept in the Business Office.

In lieu of the above safe procedures, a Department may from time to time develop alternative procedures that are documented and approved by the Director of Administration and Finance.

### **Segregation of Duties**

In general, the Institution's policies and procedures and operations are intended to provide for adequate segregation of duties, weighing the costs of operations against the likely risk and benefits.

The Institution has prescribed various functions and roles that must be met by designated individuals within departments and across the Institutions. Departments are responsible for providing and regularly updating information concerning the designated individuals to the Director, Administration and Finance, and that individual shall maintain an institution wide list that includes the functions, roles, and designated individuals.

## VII. Tax-Exempt Debt: Post-Issuance Requirements

### **Background**

This section of the policies and procedures sets forth the post-issuance compliance procedures and requirements related to tax-exempt debt issued by the Carnegie Institution. Existing tax-exempt debt is described in Carnegie's annual financial statements.

### **Post-Issuance Requirements**

This policy governs post-issuance requirements related to Carnegie's tax-exempt debt.

Various requirements must be met at the time of the debt issuance; some of these requirements do not represent a continuing obligation. Documentation concerning compliance with requirements at the time of debt issuance is maintained by the appropriate responsible entity (e.g., underwriter; governmental authority; Carnegie).

It is also noted that formal review and opinions are provided by legal counsel at the time of any debt issuance to help assure compliance and to enable the sale of the tax-exempt bonds.

Post-issuance compliance procedures and requirements, the subject of these policies, exist for the life of the debt.

### **Compliance**

Carnegie's intent is to comply with all applicable federal tax law requirements primarily in order to ensure that interest earned by bondholders is not taxable under section 103 of the Internal Revenue Code. The key post-issuance requirements related to Carnegie tax-exempt debt include:

- Disbursements. Bond proceeds shall be disbursed for:
  - Project costs
  - Capitalized interest (i.e. initial obligations to bondholders)
  - Bond issuance costs
- Eligibility. To be an eligible project, the property being financed must be owned or, under certain circumstances, leased by Carnegie and the intended use must be consistent with Carnegie's 501(c)(3) exempt purposes.
- Timing of the use of bond proceeds. At the time that bonds are issued it must be intended and expected that the project will be completed within three years of issuance.
- Private business tests. Bond issuances must comply with private business tests related to business use and private security or payment. Details are:
  - Business Use. Five percent or less of bond issue proceeds may be used for private business purposes, and such use may only occur if in accordance with tax certificate provisions and in compliance with applicable federal law. Costs of issuance are counted against the 5% limit.

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- Private Payment or Security test. No more than five percent of the payment of principal or interest on any bond issue may be made or secured (directly or indirectly) by payments or property used or to be used for a private business use.

The Director of Administration and Finance shall consult, as necessary, with Carnegie's external legal counsel to assure compliance with this restriction.

- Ownership test. All property financed by the net proceeds of any bond issue must be owned by either a 501(c)(3) organization or a governmental entity.
- Change of use. Change of a project's use or contemplated change of use must be reported by a Department Director of Department Business Manager to the Director of Administration and Finance prior to the implementation of the proposed change in use to ensure compliance with applicable regulations.
- Record retention. Carnegie has adopted a record retention policy relating to tax-exempt bonds, pursuant to which records relating to tax-exempt bonds shall be maintained for the entire term of the bond issue plus three years, or, in the case of an issue refunded by one or more subsequent issues, for the combined term of the issues plus three years.

### **Procedures**

To provide for compliance with post-issuance debt requirements, Carnegie's Director of Administration and Finance will:

1. Maintain necessary documentation and meet applicable deadlines;
2. Complete an annual questionnaire concerning the debt, to include information from applicable business offices and other units;
3. Hold an annual discussion among financial personnel to review the Institution's compliance with this policy; and
4. Designate individuals, through this policy and from time to time, to carry out activities to assure compliance.

### **Reporting**

Carnegie will comply with various separate reporting requirements related to tax-exempt debt, including but not limited to:

IRS Form 990. Carnegie is required to report tax-exempt debt and other related tax-exempt bond information on IRS Form 990, Return of Organization Exempt from Income Tax. The IRS Form 990 is prepared annually by the Financial Manager, with support from the Deputy Financial Manager and other staff as appropriate, and is reviewed, approved, and submitted by the Director of Administration and Finance, an officer of the Institution. The Institution's Trustees are provided a copy of the IRS for comment prior to its submission.

Arbitrage Certificates. On a schedule set forth in the debt documents, Carnegie, typically with the support of an expert consultant, will calculate any arbitrage on the

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debt and make any required rebate payment. Documentation concerning the certificate will be shared with required parties.

Annual Reporting to Various Authorities. Carnegie will issue an annual disclosure report related to its tax-exempt debt to all interested parties, to include audited financial statements and an update on the Institution's activities in the prior year.

## VIII. Financial Swap Policies

### **Background**

This document sets forth the interest rate and commodities swap policies of the Carnegie Institution of Washington. The policies are being documented at this time to reflect the ongoing practices at the Institution and to help structure any future decisions to enter into new swaps or to restructure or terminate existing ones.

Existing interest rate and commodities swaps are described in Carnegie's annual financial statements.

### **Interest Rate Swaps**

#### **Purpose**

This policy will govern the use of interest rate swaps in connection with Carnegie's management of its debt programs. By using swaps in a prudent manner, Carnegie can increase its financial flexibility, provide opportunities for interest rate savings, allow Carnegie to actively manage asset and liability interest rate risk, take advantage of market opportunities to lower the overall cost of debt, balance interest rate risk, or hedge other exposures. The use of swaps must be tied directly to Carnegie debt instruments. Carnegie shall not enter into swaps for speculative purposes.

#### **Approval**

Prior to entering into a swap, Carnegie management must receive approval from the Finance Committee of its Board of Trustees. The Finance Committee, in turn, must keep the entire Board of Trustees informed about any swaps entered into by the Institution. In addition, Carnegie management must seek a review from legal counsel to assure, among other things, that the swap is a legal, valid, and binding obligation of Carnegie and that entering into the swap complies with applicable laws and regulations. Finally, a recognized officer of Carnegie must sign a swap agreement; no other individual may bind Carnegie under a swap agreement.

#### **Form of Swap Agreements**

Each interest rate swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions, including schedules, any credit support annexes, and confirmations as deemed necessary.

#### **Methods of Procuring Swaps**

Swaps can be procured on a negotiated basis or through competitive bids with counterparties or its credit support providers generally having credit ratings of 'A' or 'A2' or better from Standard & Poor's and/or Moody's, respectively. Carnegie's Director of Administration and Finance will determine the most efficient and effective method of

procurement with the goals of obtaining the most favorable pricing while minimizing risks to the Institution.

### **Counterparty Risk**

Counterparty risk is effectively the risk of a failure by a counterparty to perform as required under a swap. To help mitigate this risk, Carnegie will consider the following before entering into a swap agreement: 1) diversifying its exposure among highly rated swap counterparties; 2) requiring collateralization; 3) including an optional termination event if a counterparty (or its credit support provider, if applicable) is downgraded below a certain threshold; and 4) the published views and ratings of the counterparty by Standard & Poor's and/or Moody's. Carnegie staff will consider these and potentially other methods of mitigating risks and, when proposing a swap to the Finance Committee of the Board of Trustees, indicate how the proposal helps to mitigate counterparty risks.

### **Termination Risk**

Carnegie shall consider the merits of including a provision that permits it to optionally terminate a swap at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to Carnegie, either through the payment from a termination, or if a termination payment is required, through a conversion to a more beneficial debt instrument or credit relationship.

### **Amortization Risk**

The amortization schedules of the debt and associated swap(s) should be closely matched and monitored for the duration of the swap. Mismatched amortization schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may (i) the notional amount of a particular swap exceed the principal amount of the related debt at any time, or (ii) the term of a swap extend beyond the final maturity date of the related debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

### **Basis Risk**

Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow. Basis risk can also result from the use of floating, but different, indices. Although Carnegie may choose to enter into a transaction that includes basis risk, in order to mitigate that risk any index used as part of a swap shall be a recognized market index. This includes, but is not limited to, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index or the London Interbank Offered Rate (LIBOR).

### **Tax Risk**

Tax risk includes the risk that tax laws will change, resulting in a change in the taxation treatment on swaps and their underlying assets. Tax risk is also present in all tax-exempt debt issuances. The Director of Administration and Finance should continually monitor

and evaluate tax risk, including consulting as necessary with external legal and accounting experts.

### **Interest Rate Risk**

Interest rate risk is risk that costs associated with variable rate exposure will increase as a result of changes in market interest rates. The Director of Administration and Finance will assess the impact of any swap on the overall debt portfolio as part of any proposal made to the Finance Committee, and periodically report the impacts of changes in interest rates on costs to the Board of Trustees as part of an overall presentation of Carnegie's financial position.

### **Reporting**

The Director of Administration and Finance will report all results within 30 days of the completion of any swap transaction to the Finance Committee, and to the Board of Trustees at its next scheduled meeting.

### **Commodities' Swaps**

#### **Purpose**

This policy will govern the use of commodities swaps in connection with Carnegie's management of investments. By using swaps in a prudent manner, Carnegie can increase its financial flexibility, provide opportunities for savings, allow Carnegie to actively manage asset and liability commodities risk including reducing exposure to volatility in commodities investments, take advantage of market opportunities to maximize returns on commodities investments, balance commodities' risk, or hedge other exposures. The use of commodities swaps must be tied directly to Carnegie investments in commodities. Carnegie shall not enter into any commodities swaps for speculative purposes.

#### **Approval**

Prior to entering into a commodities swap, Carnegie management must receive approval from the Finance Committee of its Board of Trustees. The Finance Committee, in turn, must keep the entire Board of Trustees informed about any swaps entered into by the Institution. In addition, Carnegie management must seek a review from legal counsel to assure, among other things, that the swap is a legal, valid, and binding obligation of Carnegie and that entering into the swap complies with applicable laws and regulations. Finally, a recognized officer of Carnegie must sign a swap agreement; no other individual may bind Carnegie under a swap agreement.

#### **Form of Swap Agreements**

Each commodities swap shall contain terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended, and such other terms and conditions, including schedules, any credit support annexes, and confirmations as deemed necessary.

## **Methods of Procuring Swaps**

Swaps can be procured on a negotiated basis or through competitive bids with counterparties or its credit support providers generally having credit ratings of ‘A’ or ‘A2’ or better from Standard & Poor’s and/or Moody’s, respectively. Carnegie’s Director of Administration and Finance will determine the most efficient and effective method of procurement with the goals of obtaining the most favorable pricing while minimizing risks to the Institution.

## **Counterparty Risk**

Counterparty risk is effectively the risk of a failure by a counterparty to perform as required under a swap. To help mitigate this risk, Carnegie will consider the following before entering into a commodities swap agreement: 1) diversifying its exposure among highly rated swap counterparties; 2) requiring collateralization; 3) including an optional termination event if a counterparty (or its credit support provider, if applicable) is downgraded below a certain threshold; and 4) the published views and ratings of the counterparty by Standard & Poor’s and/or Moody’s. Carnegie staff will consider these and potentially other methods of mitigating risks and, when proposing a swap to the Finance Committee of the Board of Trustees, indicate how the proposal helps to mitigate counterparty risks.

## **Termination Risk**

Carnegie shall consider the merits of including a provision that permits it to optionally terminate a swap at any time over the term of the swap (elective termination right). In general, exercising the right to optionally terminate a swap should produce a benefit to Carnegie, either through the payment from a termination, or if a termination payment is required, through a conversion to a more beneficial instrument.

## **Schedule Risk**

The schedules of the commodities investment and associated swap(s) should be closely matched and monitored for the duration of the swap. Mismatched schedules can result in a less than satisfactory hedge and create unnecessary risk. In no circumstance may the term of a swap extend beyond the final date of the commodities investment fund(s) in which Carnegie is invested.

## **Tax Risk**

Tax risk includes the risk that tax laws will change, resulting in a change in the taxation treatment on swaps and their underlying assets. The Director of Administration and Finance should continually monitor and evaluate tax risk, including consulting as necessary with external legal and accounting experts.

## **Pricing Risk**

Pricing risk is risk that costs associated with commodities swaps will increase as a result of the significant volatility in the pricing of commodities. The Director of Administration and Finance and the Endowment Manager will assess the impact of any swap on the overall investment portfolio as part of any proposal made to the Finance Committee, and periodically report the impacts of changes in commodities prices on investment and swap valuations to the Board of Trustees as part of an overall presentation of Carnegie's financial position.

**Reporting**

The Director of Administration and Finance will report all results within 30 days of the completion of any swap transaction to the Finance Committee, and to the Board of Trustees at its next scheduled meeting.