

Accounting Policy

SOUTHERN RESEARCH INSTITUTE (SR)

For Questions Contact SR Controller (Ext 2481)

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SR Accounting Policy

ACCOUNTING POLICY PURPOSE, OBJECTIVES and RESPONSIBILITIES

Purpose

As a not-for-profit contract research organization, Southern Research Institute is subject to many rules, regulations, and standards that most organizations are not. For example, as:

- an affiliate of the University of Alabama at Birmingham, SR must present its financial statements in accordance with GASB;
- a not-for-profit organization, SR must comply with IRS regulations regarding unrelated business income, private inurement, and intermediate sanctions;
- a contractor with the U.S. government, SR must comply with the Cost Accounting Standards and the Federal Acquisition Regulation (FAR);
- an organization with contracts subject to Good Laboratory Practices, SR must comply with the related parts of the Code of Federal Regulations.

Due to the nature of the industries in which SR operates, it is subject to audits by the IRS, Department of Health & Human Services, U.S. Food and Drug Administration, Defense Contract Audit Agency, Office of Federal Contract Compliance, and a myriad of other governmental agencies.

This manual is intended not only to ensure accuracy of financial data and good internal controls, it is also intended to ensure compliance with the many financially related rules, regulations, and standards to which SR is subject. It is intended not only for employees within SR's Finance Department, but is a reference manual for all employees as a part of SR's Compliance Program.

As a condition or prerequisite for contracting with the U.S. Government, SR must have an accounting system which adequately and consistently measures and assigns costs to government contracts. Although SR cost accounting is an explicit requirement for measuring costs on cost-type contracts or subcontracts, for the sake of consistency, the SR cost accounting structure and practices apply to all contract direct and indirect costs. One fundamental requirement of an adequate accounting system is the existence of written policies and procedures which generally describe the cost accounting practices. This Accounting Policy provides the overarching accounting policy along with a detailed table differentiating allowable (billable) and unallowable (unbillable) costs for U.S. Government contracts and subcontracts. SR's cost accounting practices are delineated in greater depth within the SR Cost Accounting Standards Disclosure Statement (CAS-DS) which is incorporated by reference into the SR Accounting Policy. The Accounting Policy provides guidelines which extend to cost estimating which must be consistent with cost accounting structure included within the CAS-DS. Additionally, SR subcontractors (with cost type subcontracts) must have similar policies and procedures which reasonably assure consistent and compliant cost accounting.

SR Accounting Policy

Objectives

1. Ensure that all finance and accounting employees have a clear and consistent understanding of accounting policies and procedures.
2. Ensure that executive management, business development, cost estimators, procurement and contract administration have a basic understanding and awareness of SR cost accounting practices as well as access to resources in finance and accounting for specific cost accounting issues.
3. Ensure the availability of a single SR accounting policy for government customers requiring documentation to facilitate a determination of an adequate accounting system.
4. Maximize SR's ability to comply with government contract regulations to maximize cost recovery and to minimize compliance issues which could adversely impact future government contract awards.

Responsibility

All employees have some responsibility for compliant cost accounting practices which begin with accurate time and expense reporting. Accounting and Finance have greater responsibility in providing reasonable assurance that SR costs are consistently recorded, reported and invoiced on government contracts. The Chief Financial Officer, with direct assistance from the SR Controller, is ultimately responsible for assuring that SR accounting policies, practices and procedures are in compliance with applicable regulations and laws.

Who to Call on Accounting Policy Issues

Government contract regulations are relatively complex; hence, compliance with respect to cost accounting can be equally complex. Therefore it is essential that employees contact the Controller whenever questions arise concerning cost accounting interpretations including any concerns regarding the propriety of cost accounting alternatives.

SR Accounting Policy

System Description--General

Overall Accounting System

SR utilizes an accounting software package – Deltek Costpoint – designed specifically for government contract cost accounting to process and post all business expenses, revenues and transactions. These transactions are processed and captured in an SR general ledger account set up in Costpoint according to the chart of accounts (separately maintained by the Controller). The business transactions and financial accounting can arise from the following areas or subsystems under the general ledger:

- Employee Payroll processing and posting
- Employee Expense Report processing and posting
- Vendor Invoices processing and posting
- Fixed Assets Purchases and Depreciation
- Amortization of Prepaid Expenses and other intangibles
- Recording of other business transaction by journal entries in Costpoint

The basic accounting structure is based upon the following summary level listing of accounts:

Assets	1XXX
Liabilities	2XXX
Capital	3XXX
Revenue	4XXX
Expenses-Direct	5XXX
Expenses-Fringe	6XXX
Expenses-Indirect Overhead	7XXX-XXX-XX
Expenses – Indirect G&A	8XXX-XXX-XX
Service Centers Allowable	SXXX-DBT-XX
Service Centers Unallowable	SXXX-DBU-XX
Unallowable Non-labor	XXXX-XXX-01
Unallowable Labor	XXXX-XXX-11

SR Cost Accounting is subject to FAR and CAS including a CAS Disclosure Statement which is updated as required by FAR 52.230-1. The SR CFO through the Controller/Finance Department is ultimately responsible for compliance with FAR/CAS for purposes of cost accumulation and cost reporting.

System Description--Specific

Project Setup

SR uses a Costpoint Project Setup Guide or Desk Guide for Project set up in Costpoint. That policy is maintained by Finance in coordination with Contracts. Projects can be set

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up at the summary level and/or to segregate costs by CLIN or SubCLIN to include separate cost recording for pre-contract costs when applicable.

Unallowable Costs

Unallowable costs are separated/identified at the point of entry including transactions which could involve both allowable and unallowable costs (e.g. travel). The expressly unallowable costs identified at the point of entry are recorded to specific general ledger accounts (refer to the Overall Accounting System, page 2 or to the separately maintained Chart of Accounts) which are excluded from any billing to any government contract or subcontract subject to FAR 52.216-7, Allowable Cost and Payment Clause. SR reviews/scrubs its annual indirect cost rate proposal for unallowable costs prior to certification and submission to the cognizant Government contract administration agency.

The Controller maintains an SR FAR Part 31 Allowable-Unallowable Checklist (attachment to this accounting policy)

Timekeeping, Payroll, Compensation, Fringe Benefits and Business Expense Reimbursement

SR maintains a timekeeping policy, Total Time Accounting, and a Standards of Conduct Policy to reinforce the individual and collective responsibilities of all SR employees in terms of the timekeeping policy and the SR Human Resources Department maintains employee benefits/paid time off/compensation policies. The SR Controller's Department maintains a separate business expense policy which establishes reimbursement requirements as well as delineates allowable versus unallowable ground-rules. All of these policies and procedures are accessible through the SR intranet (shared drive) and these policies and procedures are ultimately the responsibility of the CFO in coordination with the Controller.

Monthly Closing

SR closes its books monthly based on a 52/53-week fiscal year, with the fiscal year end on the Friday nearest December 31. The closing process comprises of establishing a cut-off for accumulation and posting of transactions from the Costpoint subsystems to include posting direct costs to contracts which ultimately flows into the Project Status Reports (generically, job cost ledgers). Generally, the Accounting Department completes the month-end closing and financial reporting process in 10 working days after each month-end.

The Controller is primarily responsible for coordinating the monthly closing to include providing any specific direction to all members of the Finance/Accounting Department at the end of each month before the closing process begin.

SR Accounting Policy

Each responsible Accounting staff member is expected to follow the deadlines identified in the closing schedule in regard to postings and submission of manual journal entries.

Manual journal entries prepared by various members of accounting staff must be reviewed and approved by the Controller or the CFO. Typically, the manually prepared journal entries for each month-end close are:

Recurring Journal Entries:

Fixed Assets - depreciation
Prepaid Expense amortization
Bank Service Fees
Line of Credit Fees
Loan Interest
Notes Payable installment
Payroll accruals – FICA, 401K contributions and PTO
Net payroll cash transfers

Adjusting Journal Entries for making corrections or adjustments resulting from account reconciliation are also prepared. All project related adjusting/ correcting journal entries are reviewed by the Project Manager and reviewed, approved and posted by the Controller. Other adjustment journal entries for indirect expenses are reviewed, approved and posted by the Controller.

Expense account balance write-offs must be approved by the Controller or CFO. Any accounts receivable write-off and establishment of reserve on uncollectible balances must be reviewed and approved by the CFO through the Controller.

Monthly Invoicing

SR invoices customers in accordance with contract terms and conditions as documented in the Costpoint Project Setup Guide. The specific billing procedures are maintained in the Costpoint documentation maintained by the Divisional Accountants under the guidance and supervision of the Controller (refer to Costpoint billing procedures accessible on the SR Finance Shared drive). Included in this process is a comparison of project inception-to-date billable costs to the contract LOF/LOC (Limitation of Funds/Limitation of Costs) or task order LOF/LOC if applicable. The contract LOF/LOC is input and/or updated in the project setup module.

All invoices are reviewed and signed by either the Controller or the CFO.

Account Reconciliations and Analysis including Accounts Receivable

To ensure the accuracy of account balances, account reconciliations and analyses for most balances and certain expense accounts are performed. The Controller maintains a

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listing of accounts to which each accounting staff is assigned to analyze and reconcile the accounts. The Controller is responsible for monitoring the timeliness of account reconciliations as follows:

Monthly Reconciliation: cash accounts, employee receivables, prepaid accounts, fixed assets, trade accounts payable, billed receivables, unbilled receivables, fee withhold and reconciling payments received with billed receivables.

Quarterly Reconciliation: payroll taxes and withholding accounts in conjunction with quarterly unemployment tax and federal tax 941 filings; long-term lease and debt liability accounts.

Accounts Payable

SR Corporate policy is to pay vendor invoices in accordance with the terms and conditions of the purchase order, subcontract or other agreement. Vendor payments are only made once the invoice has been reviewed and determined to be proper for payment. Additionally, SR policy is to only invoice its customer (government or prime contractor) when SR has recorded the specific payable which is timely paid.

Monthly Reporting

The following are monthly financial reports generated from the Costpoint general ledger system.

- General Ledger Detail Reports by each account
- Trial Balance of all accounts according to the chart of accounts
- Income Statements, consolidated and at various levels of roll-ups
- Balance Sheet, consolidated and /or at company level
- Aged Accounts Receivable Reports
- Aged Open Accounts Payable Reports
- Project Status Summary Reports
- Labor Edit/Posting Reports
- Non-Labor Detail Reports

Except for the trial balance, aged open accounts payable reports and the balance sheet, all reports are posted on the SR intranet approximately by the 12th working day after each month-end close. An executive financial summary which contains divisional and consolidated income statements, balance sheet, accounts receivable, and capital spending reports, are posted to a limited access folder on the intranet around the same time; access is limited to the CEO, Vice Presidents, and their designees.

Procedures for generating the above online reports are documented under Online Report Procedures.

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Accounting—Special Circumstances

Contract Terminations. The project manager in coordination with the Contracts department are responsible for identifying contract or subcontract terminations (or stop-work orders and for timely notification to all impacted departments. Finance is responsible for establishing a project identifier specifically to accumulate costs related to the termination settlement expenses. Finance is also responsible for providing cost charging guidelines to ensure that costs are accumulated and reported consistent with the requirements of FAR 31.205-42.

Cost Sharing Contract. The SR Contracts Department is responsible for the initial internal coordination of any contractual actions (i.e. government or prime contractor solicitation) which could be executed as a cost sharing contract (or cooperative agreement). To the extent these are atypical contract types, each will be handled on a case-by-case basis. Ultimately, the SR Contracts Department working in coordination with the Controller is responsible for ensuring that the project setup properly records costs including any SR share of costs under a cost sharing contract

Contractual Rate Caps or Contract Specific Cost Allowability Limitations. The SR Contracts Department is responsible for the initial internal coordination of any contractual actions (government solicitation or SR response to a government solicitation) for which contract specific cost limitation are under consideration. In circumstances where SR enters into a contract with contract specific cost limitations, including but not limited to rate caps, that information is entered during the project setup and the Finance Department is responsible for ensuring that invoiced costs are consistent with any contract specific cost limitations. A contract specific cost limitation may impact billable versus unbillable project cost, but it does not change the cost accounting treatment as stated in the CAS DS. Hence, labor and non-labor costs are allocated/charged to a contract consistent with the CAS DS and the differentiation (billable versus non-billable) is a component of the invoicing process.

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FAR Part 31 Cost Principles Checklist

Selected Costs May Be:

Allowable (A), Unallowable (UA), or Allowable With Restrictions (AWR)

Selected Costs	FAR	A	UA	AWR
Alcoholic Beverages	31.205-51		X	
Asset Valuations Resulting from Business Combinations	31.205-52			X
Bad Debts	31.205-3		X	
Bonding Costs	31.205-4	X		
Compensation for Personal Services	31.205-6			X
Contingencies	31.205-7		X	
Contributions or Donations	31.205-8		X	
Cost of Money	31.205-10			X
Deferred Research & Development Costs	31.205-18		X	
Depreciation	31.205-11			X
Economic Planning Costs	31.205-12	X		
Employee Morale, Health, Welfare, Food Service, & Dormitory Costs & Credits	31.205-13			X
Entertainment Costs	31.205-14		X	
Fines, Penalties, & Mischarging Costs	31.205-15		X	
Gains & Losses on Disposition or Impairment of Depreciable Property or Other Capital Assets	31.205-16			X

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Selected Costs May Be:

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Goodwill	31.205-49		X	
Idle Facilities & Idle Capacity Costs	31.205-17			X
Independent Research & Development/ Bid & Proposal Costs	31.205-18			X
Insurance & Indemnification	31.205-19			X
Interest & Other Financial Costs	<u>31.205-20</u>		X	
Labor Relations Costs	<u>31.205-21</u>			X
Legal & Other Proceedings Costs	<u>31.205-47</u>			X
Lobbying and Political Activity Costs	<u>31.205-22</u>		X	
Losses on Other Contracts (also see 31.205-48)	<u>31.205-23</u>		X	
Maintenance & Repair Costs	<u>31.205-24</u>	X		
Manufacturing & Production Engineering Costs	<u>31.205-25</u>	X		
Material Costs	<u>31.205-26</u>	X		
Organization Costs	<u>31.205-27</u>		X	
Other Business Expenses	<u>31.205-28</u>	X		
Plant Protection Costs	<u>31.205-29</u>	X		
Patent Costs	<u>31.205-30</u>			X
Plant Reconversion Costs	<u>31.205-31</u>			X

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FAR Part 31 Cost Principles Checklist

Selected Costs May Be:

Allowable (A), Unallowable (UA), or Allowable With Restrictions (AWR)

Pre-contract Costs	<u>31.205-32</u>			X
Professional & Consultant Service Costs	<u>31.205-33</u>			X
Public Relations & Advertising Costs	<u>31.205-1</u>			X
Recruitment Costs	<u>31.205-34</u>	X		
Relocation Costs	<u>31.205-35</u>			X
Rental Costs	<u>31.205-36</u>			X
Royalties & Other Costs for Use of Patents	<u>31.205-37</u>			X
Selling Costs	<u>31.205-38</u>			X
Service & Warranty Costs	<u>31.205-39</u>	X		
Special Tooling & Special Test Equipment Costs	<u>31.205-40</u>			X
Taxes	<u>31.205-41</u>			X
Termination Costs	<u>31.205-42</u>			X
Trade, Business, Technical, and Professional Activity Costs	<u>31.205-43</u>			X
Training & Education Costs	<u>31.205-44</u>			X
Transportation Costs	<u>31.205-45</u>	X		
Travel Costs	<u>31.205-46</u>			X