

UNITED STATES MASTERS SWIMMING, INC.
Financial Operating Guidelines
(As amended through 9-16-06)

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I. PURPOSE

The purpose of the Financial Operating Guidelines (“FOG”) is to maintain in one place all of the operating financial policies and procedures currently in existence in United States Masters Swimming, Inc. (“USMS”). FOG will be updated by the Finance Committee on an annual basis. Copies will be made available to any USMS member through the National Office upon request.

II. BUDGETING

A. Prior to and as necessary during each annual meeting of USMS, each member of the Board of Directors, the Executive Director, the Chair of each Standing and Ad Hoc Committee, the Coordinators and individuals responsible for a Cost Center shall submit written requests for budget allocations for the coming year and a forecast for the current year to the Finance Committee (See FOG XII. F. for Budgeting Schedule). A written explanation is required for any revenue or expense line item that is \$1,000 or more.

B. A Cost Center is any line item or group of related line items that are managed by one person. The person responsible for the Cost Center shall be known as a Cost Center Head.

C. After reviewing each budget request submitted, the Finance Committee will prepare and approve the annual budget for USMS and submit same to the House of Delegates for approval at each annual meeting of USMS.

D. Detailing of USMS costs and proposed pricing schedules (including the break-even points) for any revenue-producing project or item for which a budget allocation has been accepted, shall be submitted to the Finance Committee for its approval prior to incurring any financial obligation associated with the production of such project or item.

III. RECEIPT OF MONIES

A. All monies received should be forwarded to the National Office Administrator who shall deposit such monies within 5 business days of receipt. Simultaneous with such deposit, appropriate documentation, including, but not limited to, copies of deposit slips and checks received, shall be forwarded to the Treasurer and Controller.

IV. DISBURSEMENTS AND REIMBURSEMENTS

A. All requests for disbursements of USMS' funds, whether budgeted or not, shall be made in writing on a USMS Standard Expense Reimbursement Form. Budgeted expenses shall be approved by Cost Center Heads for their respective Cost Center. In their absence, their Vice-President or the President may approve such budgeted items.

All requests for disbursement shall be submitted to the Controller. In the absence of the Controller the reimbursement may be submitted to any member of the Executive Committee other than the Treasurer. The overbudget process under Section V. of FOG applies to all unbudgeted items.

Any reimbursement for personal services provided to USMS by a Cost Center Head or by a company which the Cost Center Head has ownership greater than 5% or is controlled by a Cost Center Head must be approved by the Cost Center Head's respective Vice-President or the President prior to

submission for payment. The request for payment, in this instance, must also be accompanied by a completed IRS Form W-9.

No checks shall be issued without approval by the Controller, or in the absence of the Controller, by any member of the Executive Committee other than the Treasurer.

B. The Controller shall not act on requests for reimbursement until documentation supporting such requests in accordance with IRS and/or USMS guidelines has been received. The Controller shall be responsible for maintaining the appropriate documentation supporting each disbursement.

C. Convention Expenses

1. Members of the Board of Directors, the National Office Administrator, Chairs of Standing and Ad Hoc Committees, Webmaster, Magazine Editor, Internal Auditor, Zone Representatives, Coordinators, Controller, and National Corporate Partner Liaison shall be reimbursed by USMS for the following:

a. Actual expenses for travel to and from USMS annual meetings.

b. Actual lodging expenses while at the annual meeting site at ½ of the rate for a double occupancy room, with the exception of the President who shall have the option of a single occupancy room, including tax, for four nights ending with the night prior to the last USMS meeting. Members of the Executive Committee and the Controller shall be reimbursed for five nights ending with the night prior to the last USMS meeting. If necessary, the president may approve an additional night's lodging for members of the Board of Directors to accommodate travel difficulties due to time zone differences.

c. All expenses incurred under FOG IV.C.1.a.-b. shall be included in the Convention Committee budget.

d. Those eligible to be reimbursed shall each directly pay their own expenses incurred under FOG IV.C.1.a.-b., and shall subsequently be reimbursed upon presentation of a completed USMS Standard Expense Reimbursement Form and a copy of supporting documentation to the Convention Committee Chair and the Controller.

e. If a chair of a Standing Committee is unable to attend the annual meeting, a substitute selected by the committee chair from that committee and approved by the President, shall be reimbursed under the guidelines outlined in FOG IV.C.1.a.-b.

2. The Convention registration fee for all members of the Board of Directors, the National Office Administrator, Chairs of Standing and Ad Hoc Committees, Controller, National Corporate Partner Liaison, Internal Auditor, Webmaster Magazine Editor, Liaisons, Appointments and Special Assignments, Zone Representatives and Coordinators is to be included in each member's budget and reimbursed by USMS conditioned on compliance with Article 507.4.5 and 507.4.6.

3. The Convention Coordinator and the Controller may authorize the payment of the approved lodging portion directly to the hotel as set forth in FOG IV.C.1.b.

D. National Championship Expenses

1. Permissible Travel Expenses (defined in FOG IV.F.2.) of the following individuals incurred for the National Long Course Championship and National Short Course Championship meets shall be reimbursed:

a. President or the next ranking available Officer (if the President is not available);

b. National Sponsor Liaison;

c. Webmaster.

2. Permissible Travel Expenses (defined in FOG IV.F.2.) of one designated member of the Championship Committee for both pre-meet and meet on-site visits to the location of each of the Short Course and Long Course National Championship meets shall be reimbursed by USMS.

E. International Travel

1. Permissible Travel Expenses (defined in FOG IV.F.2.) for travel to and attendance at FINA World Championships by the USMS President, the Executive Director and the USMS-designated FINA Liaison only shall be reimbursed by USMS and charged to the annual International Liaison/Delegate and FINA budgets.
2. Permissible Travel Expenses (defined in FOG IV.F.2.) for travel to, and attendance at, the FINA Masters Technical meetings by the USMS designated representative shall be reimbursed by USMS and charged to the annual FINA budget.
3. Permissible Travel Expenses (defined in FOG IV.F.2.), and attendance at, Pan Pacific Championships and/or Masters Pan American Championships by the International Liaison or the USMS designated representative, the Executive Director and the USMS designated FINA Liaison shall be reimbursed by USMS and charged to the annual International Liaison, FINA Liaison, or the designated representative budget.
4. Expenses for entertaining dignitaries from other nations' Masters delegations by the USMS President and the International Liaison or the USMS-designated FINA Liaison at FINA World Championships, Pan-Pacific Championships and/or FINA Masters Technical meetings shall be reimbursed by USMS up to an amount not to exceed either
 - a. \$40.00 per guest per social event or trip, or
 - b. The total amount designated in the annual budget for such entertainment.
 - c. The cost of gifts to be presented to dignitaries from other countries' Masters swimming organizations is also reimbursable.

F. Miscellaneous Reimbursement Policies

1. Members of USMS Committees shall be reimbursed for expenses incurred in the performance of their duties, subject to limitations contained elsewhere in this Section.

Permissible Travel Expenses-These policies apply to all types of travel unless specifically modified by another section of FOG. Travel reimbursements are always limited to actual expenditures to destinations outside the traveler's home area that would generally require overnight stays (even if none occurs).

All travel expenses must be budgeted and fully documented with receipts and a description of the business purpose of the travel.

- a. Transportation-USMS will reimburse actual expenses for transportation to and from the travel destination including reasonable costs for transportation to and from airports (including parking). The lowest logical coach airfare shall be used when air travel is required to the destination. USMS will not provide reimbursement for travel costs of a companion.
- b. Lodging-USMS will reimburse for actual lodging expenses at the lowest available room rate. USMS will not reimburse for any auxiliary charges such as, but not limited to, movies, room service, phone, pets, damages or valet services.
- c. Meals, board or any other type of entertainment as defined by the Internal Revenue Service Code is not reimbursable.
- d. Whenever FOG allows for payment of airfares, alternative methods of transportation are allowed. Under no circumstances shall reimbursement for any method of transportation allowed under e and f of this section exceed the combined cost of the

lowest available coach airfare between the person's home city and the approved destination and destination airport shuttle bus or cab transfer expenses.

e. Reimbursement for personal auto use for such purposes shall be at the current applicable Federal IRS standard nonprofit mileage reimbursement rate or the actual gasoline receipts (and tolls if applicable) for the trip.

f. Any USMS member incurring permissible travel expenses shall be reimbursed by USMS only to the extent not reimbursed by other parties, including, but not limited to, FINA, LMSCs, grants, and travel agents.

2. Employees of USMS shall be reimbursed for expenses incurred in the performance of their duties, subject to limitations contained elsewhere in this Section. Employees shall submit the appropriate reimbursement form with receipts to their supervisor for approval prior to reimbursement.

Permissible Travel Expenses-These policies apply to all types of travel unless specifically modified by another section of FOG, their job description, or their contract. Travel reimbursements are always limited to actual expenditures to destinations outside the traveler's home area that would generally require overnight stays (even if none occurs).

All travel expenses must be budgeted and fully documented with receipts and a description of the business purpose of the travel.

a. Transportation-USMS will reimburse actual expenses for transportation to and from the travel destination including reasonable costs for transportation to and from airports (including parking). The lowest logical coach airfare shall be used when air travel is required to the destination. USMS will not provide reimbursement for travel costs of a companion.

b. Lodging-USMS will reimburse for actual lodging expenses at the lowest available room rate. USMS will not reimburse for any auxiliary charges such as, but not limited to, movies, room service, phone, pets, damages or valet services.

c. Whenever FOG allows for payment of airfares, alternative methods of transportation are allowed. Under no circumstances shall reimbursement for any method of transportation allowed under d and e of this section exceed the combined cost of the lowest available coach airfare between the person's home city and the approved destination and destination airport shuttle bus or cab transfer expenses.

d. Reimbursement for personal auto use for such purposes shall be at the current applicable Federal IRS standard business mileage reimbursement rate or the actual gasoline receipts (and tolls if applicable) for the trip.

e. Reimbursement for rental cars is not permitted without the prior approval of the President or Executive Director (the President if such rental car is for the Executive Director). Such approval will be based on a comparison of costs for such rental car compared to other means of transportation as well as other factors deemed appropriate by the Controller and Executive Director. USMS will not reimburse for rental car insurance.

f. Any employee incurring permissible travel expenses shall be reimbursed by USMS only to the extent not reimbursed by other parties, including, but not limited to, FINA, LMSCs, grants, and travel agents.

3. Expenses for meals incurred by the National Corporate Sponsor Liaison in carrying out the directives of the Executive Committee in business dealings with current and/or potential vendors shall be reimbursed up to an amount not to exceed the lesser of:

- a. \$40.00 per guest per social event, or
- b. The total amount designated in the annual budget for such entertainment.

4. Communications - USMS will reimburse the direct cost of any phone calls made on its behalf including allocable taxes. Access charges and base service charges are not reimbursable. Reimbursement for dedicated phone lines and internet charges or electronic mail will only be made upon advance approval by the President.

5. The Controller may, upon the receipt of a request, in writing, from the chair of the Finance Committee and the Treasurer, authorize payments for routine recurring expenses that have been budgeted without the necessity of requesting or receiving a Reimbursement Request approved by the Cost Center Head required in IV.A. Such consent shall be renewed on an annual basis.

G. Others, not referred to elsewhere in FOG, on USMS official business are subject to the general travel policies of USMS and must be approved in advance by the President.

H. The commitment or use of any funds from the "Miscellaneous/Contingency" budget shall be approved in advance by a majority of the Executive Committee.

I. Prior authorization by the President and Treasurer is required for use of any credit card(s) issued to USMS. Such use shall be limited to budgeted expenses.

V. OVER-BUDGET PROCEDURES

Authorization to exceed a budgeted line item amount, or to make an expenditure not included in the approved budget, is granted pursuant to the following procedures:

A. Authorization to exceed a budgeted line item amount is required in advance of incurring the expenditure pursuant to the relevant paragraph(s) of V.D.-V.G below.

B. Authorization to make an expenditure not included in the original budget for any one fiscal year is required in advance of incurring the expenditure, pursuant to the relevant paragraph(s) of V.D.-V.G below.

C. Authorization to engage personnel, should such engagement result in the expenditure of USMS monies not included for such personnel in the original budget for any one fiscal year, is required in advance, pursuant to the relevant paragraph(s) of V.D.-V.G below.

D. Up to a cumulative total amount of \$1,000 per line item in any one year may be approved for payment by the Controller.

E. A cumulative amount in excess of \$1,000 but not more than \$2,500 per line item in any one year may be approved for payment by the Controller following approval by a majority of the members of the Finance Committee.

F. A cumulative amount in excess of \$2,500 but not more than \$5,000 per line item in any one year may be approved for payment by the Controller following approval first by a majority of the members of the Finance Committee and then by a majority of the members of the Executive Committee, in that order. Should there not be a majority vote of the members of the Finance Committee in favor of the expenditure, it will then take a two-thirds favorable vote by the members of the Executive Committee to approve the expenditure.

G. A cumulative amount in excess of \$5,000 in any one year per line item may be approved for payment by the Controller following approval by a majority of the members of the Finance Committee, a majority of the members of the Executive Committee, and a majority of the Board of Directors, in that order. Should there not be a majority vote of the members of the Finance Committee in favor of the proposed expenditure, it will then take a two-thirds favorable vote by the members of the Executive Committee to approve the expenditure before submitting the proposal to the Board of Directors, which then must also approve the proposed expenditure by a two-thirds favorable vote by a majority of its members.

H. The approvals, or a summary thereof, obtained pursuant to V. G., shall be submitted in writing by the Chair of the Finance Committee to the Controller prior to the disbursement of funds.

I. For expense items whose budgeted amount is based on the number of registered swimmers or a number of units sold, proportional expense overruns directly attributable to actual volume exceeding assumptions made for budgeting purposes are exempt from the requirements of FOG Paragraph V.

J. All new funding and overbudget spending since the last annual meeting shall be included in the minutes of the Finance Committee.

VI. VENDORS, BID PROCESS, AND VENDOR PAYMENTS

A. Budgeted Items

1. A minimum of three competitive bids is required for any single expenditure in excess of \$1,500, unless fewer than three vendors are available to bid.

a. Once approval of the budget allocation has been received in accordance with FOG VI.A.-B., the Cost Center Head shall solicit written bids that meet the requesting party's written specifications.

b. Following selection of a vendor, the Cost Center Head shall submit all documentation concerning the bidding process to the Controller.

2. If fewer than three vendors are available or suitable to bid, the requesting party must present the reasons supporting the bid process used to the Executive Committee, along with recommendations for approval. Such approval shall be submitted in writing to the Controller prior to the disbursement of any funds.

3. Nothing in the guideline shall be construed as meaning that the low bid must be accepted. However, if the low bid is not selected, then reasons supporting the choice of another bid must be presented to the Executive Committee, along with the requesting party's recommendations for approval. Such approval shall be submitted in writing to the Controller prior to the disbursement of any funds.

4. Nothing in this guideline shall be construed as precluding negotiations between USMS and a successful bidder in an attempt to improve a contract to the benefit of USMS.

B. Vendor Payments

Vendors shall be notified at the time an order is placed to direct all invoices to the National Office Administrator at the National Office. The National Office Administrator shall confirm the order and receipt of items ordered with the authorizing Cost Center Head, immediately forward the invoice to the Cost Center Head for approval, and then the Cost Center Head shall forward the invoice to the Controller for payment.

VII. INSURANCE

The Following Individuals shall be bonded in the amount of \$1,000,000 each:

A. The President, Treasurer, Executive Director, Controller, National Office Administrator, the Long Distance Committee Chair, the Championship Committee Chair, and

B. The Chair, Treasurer, and Registrar of each of the Local Masters Swim Committees (“LMSCs”) that are in compliance with FOG II.B.,

VIII. INVESTMENTS AND RESERVES

A. Investments

1. The general guidelines and philosophical considerations for the management of cash held in the Treasury of USMS are:

a. \$150,000 shall be maintained as a general reserve fund.

b. \$120,000 shall be maintained as a reserve fund specifically for the payment of the liability insurance deductible.

c. Cash in excess of the reserve funds in VIII.A.1.a and b plus 50% of USMS’ total of budgeted expenses for the current fiscal year may be invested according to the guidelines in 1.e.(2) and 1.e.(5).

d. Cash, approximately equivalent to 3 months’ expense requirements, should be kept in accordance with the guidelines of FOG VIII.A.1.e. below.

e. The following investment vehicles are acceptable to USMS for the investment of its cash balances:

(1) Checking accounts in U.S. banks offering the appropriate federal deposit insurance;

(2) Money market funds offered by one of the following companies: UBS Financial, Merrill Lynch, Chase, T. Rowe Price, Smith Barney, Vanguard, and Bank of America.

(3) In addition, the Treasurer is hereby granted specific authority to maintain funds of USMS in an amount not to exceed \$10,000 in financial institutions which do not meet the requirements set forth in VIII.A.1.e.(1) and VIII.A.1.e.(2). This exception is granted to facilitate the transfer of funds between the operating disbursement accounts and the longer-term investments.

(4) On an annual basis the Finance Committee will review the list of firms approved in VIII.A.1.e.(2) for continued inclusion or replacement.

(5) USMS and any of the LMSCs may own obligations consisting of U.S. dollar-denominated investments meeting any of the following:

a) Marketable, direct obligations of the United States of America maturing within two years from the date of acquisition thereof;

b) Prime commercial paper maturing within one year from the date of acquisition thereof, and at the time of acquisition, having a rating of A-1 or higher by Moody’s Investor Service, Inc, or F-1 or higher by Fitch; and

c) Interest-bearing certificates of deposit maturing within one year from the date of acquisition thereof issued by a commercial bank organized under the laws of the United States of America or any State, thereof issued by a commercial bank that is FDIC insured. Such certificates of deposit shall not exceed \$100,000 from any one bank.

B. Common stocks, preferred stocks, option devices, obligations denominated in foreign currencies or derivative products are not considered appropriate financial instruments for USMS or any of its LMSCs.

C. The authorized signers on all USMS’ bank and investment accounts shall prepare and sign a letter directing each such institution where USMS has an account to send the original of each statement or statements for such accounts, together with all checks and/or records of trades and/or transfers made,

to the Controller. A copy of all statements and/or records of trades and/or transfers made shall be provided to the Treasurer.

IX. PROPERTY AND EQUIPMENT

A. All property and equipment of USMS shall be retained by the person into whose custody it is given for the purpose of facilitating the work of USMS. If the person's assignment within USMS changes or he/she no longer has use for the equipment, it will be made available to his/her successor or others in USMS who may have a need for the equipment.

B. USMS equipment which is obsolete and not needed by any Board member or other USMS position may be sold. The priority is to make productive use of the property within USMS. However, consideration may be given to the age of the equipment, its replacement value, its maintenance cost, and cost of shipping.

C. Equipment sales are also subject to the following conditions:

1. All equipment sales must be approved by the USMS President and billed by the Controller.
2. When USMS equipment is to be sold, the sales price will be the greater of the fair market value of the equipment or \$25.

X. FINANCIAL REPORTING

A. Controller

1. The Controller shall utilize a commercially available general ledger accounting software package.
2. On a quarterly basis the Controller shall supply to all Cost Centers a year-to-date listing of all items charged to his or her budget.
3. The Controller shall maintain a property and equipment log showing:
 - a. The date purchased,
 - b. Original cost and depreciation schedule, and
 - c. Description of the equipment together with serial numbers.

B. Miscellaneous Reporting

1. All financial records of USMS shall be submitted to the Internal Auditor within five calendar months after the close of USMS' fiscal year-end.
2. All individuals and committees who are responsible for items carried on USMS' financial records as inventory shall maintain proper inventory control records and submit an annual inventory report to the Controller within two weeks after the close of USMS' fiscal year-end.

XI. LOCAL MASTERS SWIM COMMITTEES (LMSCs)

A. Each LMSC shall produce annual financial statements consisting of at least an income statement and a balance sheet, based on sound accounting principles. LMSC financial statements may be prepared more often than once per year for LMSC use.

B. Each LMSC should use the same fiscal year as USMS, which is a calendar year.

C. As required by USMS Code of Regulations and Rules of Conduct, a copy of each LMSC's annual financial statements shall be sent to the USMS National Office within 4 months after its year-end.

D. Any LMSC with annual gross receipts normally in excess of \$25,000 must file a tax return for that tax year, with a copy to be sent to the USMS National Office. All LMSCs are reminded that income

unrelated to exempt activities may be taxable. Any organization's gross receipts are considered to be normally in excess of \$25,000 if the organization is:

1. Up to a year old and has received more than \$37,500 in gross receipts during the first year;
2. Between one and three years old and averaged more than \$30,000 in gross receipts during each of its first two tax years; or
3. Three years old or more and has averaged more than \$25,000 in gross receipts for the immediately preceding three years (including the year for which the return would be filed).

E. Any LMSC which makes payments in excess of \$600 in any fiscal year to any individual for services rendered shall issue an IRS Form 1099-MISC to that individual. Reimbursement of out-of-pocket expenses is not considered to be payments for services rendered.

F. It is recommended that each LMSC maintain all financial statements and records, including receipts, bank statements, and supporting documents for revenues and expenses for a minimum of three years, and possibly for as long as seven years, after the tax filing deadline for each year.

G. It is recommended that each LMSC's financial records be reviewed occasionally by someone other than the LMSC's Treasurer, such review to include:

1. Verification of bank balances
2. Sample review of revenues
3. Documentation for expenses

H. It is recommended that the functions of Treasurer and Registrar not be performed by the same person.

I. USMS reserves the right to inspect all financial records of any LMSC upon reasonable notice to the LMSC.

XII. MISCELLANEOUS

A. The giving of gifts and awards is appropriate and consistent with the purposes of USMS and shall be encouraged.

B. USMS shall donate an amount to be determined annually by the Finance Committee and approved by the HOD in the budget to the International Swimming Hall of Fame.

C. The price of items sold to individuals, not for resale, shall be established at no less than the cost of the items plus mailing costs, rounded up to the nearest \$1.00.

D. The President or the President's appointee shall negotiate contracts or agreements between USMS and sponsors, independent contractors and employees for goods and/or services for which budget approval has been obtained. Proposed contracts or agreements shall be reviewed by a representative of the Finance Committee, appointed by the Finance Committee Chair, prior to execution.

E. No Officer, Committee Chair, subcontractor, employee or other official of USMS shall accept any gift of more than \$25 (annual cumulative total of \$200) and or any meal with a value of more than \$75 from any vendor, bidder, or sponsor. This policy does not preclude participation in large, sponsored events or acceptance of items made widely available.

F. Budgeting Schedule:

1. May 1. Cost Center heads receive budget request form from Finance Committee Chair.
2. June 1. Cost Center heads send budget request forms with their budget request for the coming year and their forecast for the current year to Executive Committee Liaison.

3. July 1. Executive Committee Liaison sends budget request forms to Finance Committee Chair.
4. August 15. Finance Committee Chair will distribute preliminary budget for the coming year and forecast for current year and copies of budget forms to Finance Committee members and National Office.

G. Emergency/Disaster Over-Budget Procedure

In the event of an unanticipated occurrence which substantially inhibits or prevents the performance or maintenance of a necessary function of USMS, whether such occurrence relates to personnel or equipment, and delay in responding to such unanticipated occurrence will be damaging to the best interests of USMS and its members, then any two (2) members of the Executive Committee may authorize the expenditure of such funds as may reasonably be necessary to address the unanticipated occurrence. As soon as practical thereafter, such officers shall communicate in writing the substance of the unanticipated occurrence and their reasons for proceeding to the Finance Committee, the Executive Committee and the Board of Directors and thereafter such expenditure(s) to the extent that it exceeds budget, shall be subjected to the applicable over-budget procedure.

XIII. Website Development Costs Policy

A. Purpose

The purpose of the Website Development Costs Policy is to provide guidance in determining which website costs to capitalize and which to expense.

B. Overview

Authoritative guidance categorizes website development costs in the following five stages:

1. Planning the website
2. Developing the application and infrastructure
3. Developing graphics
4. Developing content
5. Operating the site

Generally, during the planning stage (1), website development costs should be expensed as incurred. During the infrastructure development stage (2-4) costs should be capitalized. During the operating stage (5) costs should be expensed as incurred and the amortization of capitalized costs should begin. USMS has arrived at the operating stage but from time to time devotes resources to development.

C. Definitions and Treatment

1. Planning the Website consists of developing a plan, determining the purpose and functionality of the site, identifying the hardware and software needed, conceptualizing graphics and content, and identifying software and personnel needed to design and develop the site. All costs in this stage are expensed as incurred.

2. Developing the Applications and Infrastructure includes acquisition and development of both hardware and software needed to operate the site. Costs for the following generally should be capitalized: costs incurred to obtain and register an Internet domain name; to develop or acquire the software tools needed for the development work; software for general website operations; customization of code for web applications, database software, and software to integrate applications; development of HTML web pages or templates, installing developed applications on the web server; creating links to other websites or locations within the website; and testing website applications.

3. Developing Graphics involves designing and laying out the web pages which provide the look and feel of the site. The graphics generally stay consistent even though content may change. Graphics are a component of software and generally should be capitalized. Later modifications to graphics should be evaluated to determine whether they represent maintenance or website enhancements.

4. Developing Content consists of two parts – creating content (which may involve populating databases) and entering the content into the website. Content may be developed internally or acquired from third parties. Costs to convert databases to HTML pages and to input content into a website generally should be expensed as incurred. Costs to integrate a database with the website generally should be capitalized as an application development cost.

5. Operating the site. Costs in the post implementation stage such as training, administration, and maintenance, including ISP web-hosting fees, should be expensed as incurred.

In general, enhancements to the site should be capitalized if it is probable that they will result in added functionality, such as search engines, database access, and purchase features like credit card use. Costs should be capitalized when they are expected to bring economic benefits to future periods. Examples of this are the ability to generate revenues directly from the website (e.g. online meet entry) or direct and substantial access to services (e.g. committee reports or meet results). Costs for minor upgrades and enhancements that cannot be reasonably separated from maintenance costs should be expensed as incurred.

The determination as to what meets the criteria for capitalization will in each case depend on specific facts and circumstances.

D. Policy

Projects having a cost of \$50,000 or more and an estimated to have a useful life of at least 3 years shall be capitalized. Capitalized costs will be amortized on the straight-line basis over the estimated useful life. The amortization period depends on how long the software is expected to be used, considering technology and obsolescence. Amortization should begin for each module or component of a project when the module or component is ready for its intended use. Development costs should be capitalized and amortized over a period during which significant changes to the site are not anticipated.

Project costs will be determined as follows:

Internally developed: costs plus benefits for salaried employees calculated as cost per hour based on a 2,080 hour work year, plus any specifically related travel or other out-of-pocket costs, plus any purchased development tools,

USMS contractors and external consultants: actual costs for services plus any specifically related travel or other out-of-pocket costs, plus any purchased development tools.

For budgeting purposes all costs will be included in the web operations line item, account #5685.

All projects should be defined and tracked and reported to the controller and finance committee chair at the end of each calendar quarter with hours detail incurred on the project. Each report will report the current quarter and year to date. The report will also identify any out-of-pocket costs and purchased development tools attributable to the project.

Determination of whether individual tasks are separate parts of one project, or actual separate projects shall be based on the facts and circumstances in each case. This does not preclude parts of a project taking place in two years.