

Highland Academy Charter School

Financial Controls Policy

Highland Academy Charter School shall employ a Program Director (PD) and a Finance Director (FD) to administer the daily fiscal and long-term accounting functions of the School. The Charter School will contract with a bookkeeper (BK) to provide support to the School in analyzing, reconciling and adjusting account balances, and to ensure the records are maintained in accordance with generally accepted accounting principles (GAAP). The BK also may assist in developing the Charter School's charter of accounts and implementation of an accounting software system.

The internal financial control policies and procedures of the Charter School are as follows:

I. ACCOUNTING SYSTEM

Policy: The charter school shall use the accrual basis accounting in accordance with GAAP. All financial statements and any reporting to the IRS or other governmental entities shall be completed using this method.

Procedure: The charter school shall maintain an accrual basis accounting system in accordance with generally accepted accounting procedures. All financial statements and reports to the IRS and other governmental entities shall be completed by the charter school or an accounting firm selected by the charter school on an accrual basis, or otherwise in accordance with IRS or other regulations, and shall be submitted to such entities by the charter school.

II. BOOKS OF ACCOUNT

Policy: The books of account shall be maintained in accordance with GAAP, and include Budget Reports, General Ledger, and detailed journals for all cash receipts and cash disbursements (including payroll).

Procedure: The BK shall assist in maintaining all books of accounts. An accounting software package will be utilized to properly record all assets, liabilities, net assets, revenues, expenses and budgets. The FD will be available, as needed, to provide monthly accounting support to the CPA.

III. CHART OF ACCOUNTS

Policy: A corporate Chart of Accounts in accordance with GAAP shall be developed by the FD to properly record all accounting activity.

Procedure: The BK shall record all school fiscal transactions to the Chart of Accounts in accordance with GAAP. The PD and FD will allocate revenues and expenses according to the Chart of Accounts.

IV. FINANCIAL STATEMENTS

Policy: Financial statements shall be prepared by the bookkeeper and shall be reviewed by the FD before being presented to the Board of Directors.

Procedure: The BK shall prepare monthly balance sheets and statements of activity. These statements will be prepared in accordance with GAAP, and include a detailed reporting of asset, liability, revenue and expense categories, and a comparison between year-to-date actual and year-to-date budget data. Financial statements shall be reviewed by the FD and presented to the Board of Directors during board meetings.

V. BANK ACCOUNT MANAGEMENT: ISSUING/SIGNING CHECKS

Policy: Check signing procedures as established by the Board shall be adhered to by staff.

Procedure: School checks shall be signed by the PD. Checks shall be issued only when within the approved budget and with the approval of the PD. Checks shall be prepared for signature by the BK. The BK shall not have check signing authority or withdrawal authority. Voided checks shall be retained to insure proper maintenance of checking account records.

VI. BANK ACCOUNT MANAGEMENT: OPENING/CLOSING ACCOUNTS

Policy: The signature of the PD shall be required to open or close accounts, subject to restrictions of such authority established by the Board of Directors and by state law or regulation.

Procedure: The PD, after consultation with and authorization by the Board President, shall secure any necessary signatures to open or close a charter school account.

VII. BANK ACCOUNT RECONCILIATION

Policy: Reconciliation of each charter school account shall be done within sixty (60) days of receipt of bank statements.

Procedure: The BK shall reconcile all bank accounts monthly. The FD will open all bank statements and review cancelled checks and monthly bank statement activity, and compare the cash receipts log (prepared by the mail opener) to the deposits listed on the bank statement.

VIII. PETTY CASH

Policy: The charter school shall maintain a petty cash fund to be used for reimbursements to employees for minimal out-of-pocket business-related expenses, not to exceed \$500.00.

Procedure: The PD shall reimburse employees for out-of-pocket expenses, upon submission of a petty cash reimbursement voucher, approved by the PD, and substantiating receipts related to each expenditure. The Office Manager shall verify all receipts as required for all requested reimbursements, make any required payment, and maintain the petty cash fund. Replenishment of the petty cash fund will be documented with a check request prepared by the BK as needed, and approved by the PD. The Office Manager will count and reconcile the petty cash fund monthly.

IX. ACCOUNTS RECEIVABLE

Policy: The charter school will maintain accounts receivable in accordance with GAAP for scheduled receipts from the school districts, grants or any other amounts due but not yet received.

Procedure: All revenues will be recorded on an accrual basis in accordance with GAAP. The BK will maintain an aged schedule of amounts receivable, which lists payer, date, description, and account. The FD will review reconciliations of the revenue accounts on a monthly basis.

X. ACCOUNTS PAYABLE

Policy: The charter school, whenever practical, shall pay invoices within 60 days of their issue, unless alternative arrangements are made with vendors or unless a dispute arises. Invoices of an amount which precludes payment within 60 days may be put on a payment plan, allowing a monthly payment agreeable to both the charter school and the vendors, unless another arrangement is reached agreeable to both the charter school and the vendors.

Procedure: All accounts payable shall be recorded on an accrual basis in accordance with GAAP. Accounts payable shall be maintained by the FD who shall ensure timely payment and the development of payment plans. The BK shall maintain an aging of accounts payable schedule listing the payee, transaction date, amount and payable description and account. Payments of invoices shall be processed on or about the end of each week. All purchases in excess of \$5,000 shall be approved by the Board of Directors. All invoices will be approved by the PD prior to payment by the BK. No payment will be made without a properly approved invoice or other supporting documentation. All contracts and loans shall be approved by the Board of Directors.

XI. PAYROLL SYSTEM

Policy: The charter school shall maintain a payroll system approved by the Board of Directors.

Procedure: Documentation of authorized pay rates shall be maintained in the employee's personnel file. Personnel files shall be secured with access limited to authorized individuals. The charter school will contract with a payroll service to provide payroll processing. Personnel will be paid semimonthly, by check. Personnel electing direct deposit will receive a check stub. Hourly employee timesheets will be maintained after scheduled work. Virtual (Google) timesheets, filled in by the employee and approved by a supervisor (PD, Assistant PD, or the Office Manager), shall be forwarded to the FD at the end of the pay period for payroll processing. The FD will review the timesheets for signatures or approvals, review time worked and verify for mathematical accuracy, summarize the payroll information and forward it to the payroll service for processing. The PD will receive all completed payroll reports and paychecks from the payroll service. The PD will review the payroll reports and document approval. The Office Manager will distribute the paychecks. All payroll changes will be authorized by the PD and forwarded to the payroll service by the FD. The BK will record each payroll to the accounting system, including any payroll accruals, in accordance with GAAP. The payroll service will be responsible for payment of all payroll-related liabilities. A deferred compensation program may be established in accordance with IRS

and personnel policies and administered by a third party. All services performed by independent contractors will be processed as accounts payable. At the close of the fiscal year, Forms 1099 will be issued to independent contractors in accordance with IRS regulations.

XII. MAIL MANAGEMENT; INCOMING CHECKS

Policy: All incoming mail is opened and distributed by a designated staff person. Any checks received are immediately restrictively endorsed by the mail opener.

Procedure: All mail shall be opened by the Office Manager or any other employee as designated by the PD. The Office Manager (or other designated employee) shall record the name, date received, name(s) or donor, address (if available), amount, and type of receipt. The Office Manager shall stamp the check "for deposit only" into the charter school's account, and shall present these checks to the PD who then shall prepare the deposit slip and deposit the checks into the appropriate account. A copy of each check shall be attached to a copy of the deposit slip and deposit receipt and shall be filed and used for reconciliation of the bank statement. The FD will receive the documentation related to the cash receipts deposit and record the activity to the accounting system. The Board of Directors will review all cash receipts monthly, including a comparison of amounts received to the budget.

XIII. BUDGETING OF FUNDS

Policy: The Board of Directors shall approve an annual operating budget for the charter school. Adjustments to budget categories during the year shall be approved by the Board.

Procedure: The FD shall develop, in conjunction with the PD, the charter school's annual budgets. Budget assumptions in the initial year of operations will be based on known expenditures of similar entities, modified for the charter school's specifications and expectations. Future budgets will be based on the school's history, specifications and expectations. Budgeted expense categories shall include the cost of personnel instruction, administration, facilities, operations and other spending categories of the charter school. Detailed expenses, such as supplies, repairs and maintenance, travel, contracted services, utilities, rent, and other expenses will be budgeted according the above spending categories. The Board of Directors will approve the annual budget of the charter school by May 31st of the immediately preceding fiscal year. The Board also will approve any amendments proposed during the year. The Board of Directors will compare year-to-date revenues and expenditures to the budget and review significant variations on a monthly basis.

XIV. CAPITAL DEPRECIATION; DISPOSITIONS AND DEPRECIATION

Policy: The Charter School shall, either independently or with the assistance of the BK, maintain appropriate fixed asset and related depreciation accounts.

Procedure: All property and equipment acquisitions and dispositions shall be approved by the Board of Directors. Assets in excess of \$5000 shall be capitalized and depreciated over their useful life in accordance with GAAP for nonprofit organizations. Asset purchases of under \$5000 and software purchases shall be expensed. The BK will reconcile the fixed asset and related depreciation schedules to the general ledger account monthly.

XV. STAFF AND TRAVEL EXPENSES

Policy: Staff shall be reimbursed for travel and related expenses while on approved charter school business.

Procedure: All out-of-town travel shall be approved by the PD or the Assistant PD in advance. All staff shall submit travel reimbursement forms by which they request reimbursement. Travel reimbursement forms shall document employee name, travel dates, destination, business purpose, and detail business costs such as tolls, parking, mileage and meals. All receipts and substantive documentation must be attached to the travel reimbursement form. Submitted travel reimbursement forms shall be reviewed by the FD for: (a) accuracy of computations; (b) completeness of required receipts; and (c) adherence to established guidelines.

Inaccurate or incomplete information shall be discussed with the submitting staff member, and any necessary additional information shall be requested by and provided to the FD prior to reimbursement. Staff shall be compensated within 20 business days of submission of a complete and accurate reimbursement form to the PD or the Assistant PD. Reimbursement requests submitted by the FD shall be reviewed and approved for payment by the PD; requests submitted by the PD shall be reviewed and approved for payment by the Assistant PD.

XVI. AUDITS; FINANCIAL REGULATORY FORMS

Policy: Independent audits of the financial statements shall be conducted annually by a California Certified Public Accountant approved by the Board of Directors. Annual financial audits will be conducted in accordance with generally accepted auditing standards. Financial regulatory forms shall be completed as necessary by the charter school or an accounting firm approved by the Board of Directors.

Procedure: Appropriate financial forms and reports shall be filed with the charter entity, federal government and appropriate state agencies. Upon completion, audits shall be reviewed by the PD and the FD before being submitted to the Board of Directors for review. All audits shall include a management letter.

XVII. INSURANCE

Policy: The charter school shall maintain appropriate insurance coverage.

Procedure: At a minimum, the following insurance shall be maintained: (a) Commercial Package (including property and liability); (b) Directors and Officers Liability; (c) Disability; and (d) Workers Compensation. The charter school also shall contribute to the state Unemployment Insurance Fund in accordance with applicable law.

XVIII. FEES SCHEDULE

Policy: The charter school does not charge fees for surveys, workshops, consultation, or publications, and thus does not maintain a schedule of fees.

XIX. PERSONNEL LEAVE

Policy: The charter school does not pay out accrued vacation leave and shall not record the balance on financial statements as a liability. A full-time employee shall receive 10 days of personal leave within a fiscal year. Employees are encouraged to fully utilize their vacation time before the end of a fiscal year. The charter school allows a maximum carryover personal leave up to 5 days.

Procedure: Employees' use of accrued leave shall be approved by of the PD in accordance with established personnel policy. Personnel records, including unused personal leave, are maintained by the payroll service. The balances of employees' personal leave will be stated on their pay stubs; however, they have no cash value and will not be paid out should the employees choose to terminate employment at the charter school.

XX. CONTRACTS

Policy: The execution of contracts and grants shall be within the scope of the charter school's mission, goals, and annual plans.

Procedure: The charter school may enter into contracts for such things as professional services or rentals or to perform a function with the scope of the charter school's mission, goals and annual plans. All contractual agreements shall be in writing, and signed and dated by the PD. All contracts of the charter school must be approved by the Board of Directors.

XXI. INVESTMENT POLICIES

Policy: The charter school's funds shall be invested in a money market funds and certificates of deposit.

Procedure: The PD shall identify excess funds available for investment, and approve the transfer of such funds to be made by the FD.

XXII. BORROWING FUNDS

Policy: All borrowing of funds, and the establishment or increase of all credit lines must be approved by the Board of Directors.

Procedure: Based on annual audits, financial statements, and cash flow projections, the PD may establish credit lines and borrowing limits as directed by the Board of Directors. Borrowed funds will be repaid

with appropriate, measurable and identifiable revenues in accordance with GAAP. The PD and FD shall alert the Board of Directors if lines of credit or borrowing limits ever are not adequate to meet the needs of the organization. The Board of Directors may amend the borrowing policy and credit limits.

XXIII. BEQUESTS AND CONTRIBUTIONS

Policy: Non-restricted bequests and contributions shall be used for operations or special projects as designated and approved by the PD and/or the Board of Directors of the charter school, consistent with conditions set forth by the Board of Directors of the charter school. Bequests and contributions that are donor restricted shall be used for the purpose articulated by the donor, except that in no case shall the school accept any such bequest or contribution for which the donor restriction violates any federal or California state law.

Procedure: Bequests and contributions will be properly budgeted and accounted for in accordance with GAAP for nonprofit organizations. The BK will maintain supporting schedules to document revenues and expenditures related to unrestricted, temporarily restricted and permanently restricted net assets. Non-restricted bequests and contributions shall be used for operations or special projects as designated and approved by the PD and/or Board of Directors of the charter school. Bequests and contributions that are donor restricted shall be used for the purpose articulated by the donor. The Board of Directors will review and approve expenditures on a monthly basis in accordance with donor stipulations, if any.

XXIV. HONORARIA

Policy: Honoraria received by staff while on charter school time or on charter school business shall be the property of the charter school.

Procedure: Staff shall request that any anticipated honoraria be made payable to the charter school, and any honoraria received by staff in any form shall be the property of the charter school.

XXV. CREDIT CARDS

Policy: The charter school may maintain corporate credit cards which shall be issued to staff as designated by the Board of Directors. Such credit cards shall be used solely for charter school business.

Procedure: All credit cards account billing shall be given immediately to the BK. The BK shall maintain a system of all charges reported by staff and each charge shall be checked against the bills. Discrepancies in these receipts or billing shall be reported by the BK to PD and FD for investigation. The use of the credit cards shall adhere to established personnel policy. In the event of termination of employment, staff shall be required to return any credit cards that have been issued to them.

XXVI. PURCHASING PRACTICES

Policy: Guiding the purchase of all goods and services of the charter school will be: (a) price; (b) quality; and (c) dependability. Particular vendors may be chosen for any one or any combination of these factors; however, at all times the selection of a particular good, service, or vendor shall be with the intention of

maintaining a top-quality school. The execution of contracts and grants shall be within the scope of the charter school's mission, goals, and annual plans.

Procedure: When a product to be purchased which costs more than \$10,000, the PD, or his or her designee, shall make every reasonable effort to secure quotes and product specifications from at least three providers of the product or a similar product. The PD shall select from among these offers, and document the reasons for selecting the chosen option which shall include mention of the aforementioned factors that guide such selection. Professional service contracts are excluded from the requirement to seek multiple bids; however, nothing shall preclude the PD from seeking such multiple bids for these contracts. These contractual agreements shall be presented in writing and approved by the board of directors before execution.