

Elgin Math & Science Academy

Financial Policies & Procedures

This document will describe the policies and procedures for the accounting and administrative functions conducted by Elgin Math and Science Academy. The Board of Directors is to review the manual every year and may make amendments as needed.

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Introduction

The Elgin Charter School Initiative is a nonprofit 501(c)(3) corporation that operates the Elgin Math and Science Academy Charter School ("EMSA"), a public charter school located in Elgin, Illinois.

Fiduciary Duties: Care, Loyalty, Obedience

While the board is not usually involved in the day-to-day activities of the organization, it is responsible for managing the organization and making important decisions, such as adding or removing board members, hiring and firing key officers and employees (more specifically, the executive director), engaging auditors and other professionals, as well as authorizing significant financial transactions and new program initiatives. In carrying out those responsibilities, members of a board of directors are fulfilling their fiduciary duties to the organization and the public it serves.

Nonprofit board members have three fundamental areas of legal and fiduciary responsibility, often referred to as the duty of care, loyalty, and obedience.

Duty of Care

The duty of care requires that a nonprofit board member participate actively in governance and oversight of an organization's activities. This includes attending board and committee meetings, reviewing and understanding the organization's financial documents, helping to frame strategic plans, identifying and managing risks as well as opportunities, and taking prudent steps to advance the organization's mission and goals.

Duty of Loyalty

The duty of loyalty requires that a nonprofit board member act in the best interest of the organization at all times. This includes identifying and disclosing potential conflicts of interest before joining the board, and when they arise. When a potential conflict exists, board members must follow conflict of interest management steps as mandated by law and recommended in good governance guidelines. (Note: New York State law requires that all nonprofits have a written Conflict of Interest Policy.)

Duty of Obedience

The duty of obedience requires that a nonprofit board member work to ensure that the organization complies with applicable laws and regulations, acts in accordance with its own policies, and carries out its mission appropriately. Board members should ensure that the organization carries out its purpose and does not engage in unauthorized activities.

Financial Policies

- EMSA shall comply with the laws, rules, and regulations applicable to it in regard to financial matters and with the terms of the charter school contract by which it is bound.
- Control procedures shall be in place to ensure the security of the organization's assets.
- Timely and accurate financial information shall be produced to fulfill all reporting requirements and management needs.

Financial Management and Leadership

- The financial management team of EMSA consists of the Board of Directors, the Board Finance Committee, the Board Treasurer, the Principal, the Director of Finance and Operations, and all office support staff. The Board may assign proxies for the Principal or Director of Finance and Operations in their absence.
- The day-to-day fiscal responsibilities of EMSA are handled by the Director of Finance and Operations with oversight from the Principal. However, ultimate fiduciary responsibility for the overall management of the organization lies with the Board of Directors.
- The Board of Directors will meet multiple times per year to ensure that its fiduciary duty is maintained. EMSA will establish a Finance Committee. This committee will be responsible for selecting an audit firm, reviewing this manual on an annual basis, recommending an annual budget for Board approval, and working with the school's finance team to review the monthly financial statements.
- The Finance Committee of the Board of Directors shall be responsible for the primary Board-level oversight of school financial matters, as defined by the Board. The Principal will have the primary responsibility of executing all financial matters. All members of the fiscal management team will work together to make certain that all financial matters are addressed with care, integrity, and in the best interest of EMSA.
- The Principal is responsible for administering the school's adopted policies and ensuring compliance with procedures that have been approved by the Board of Directors. Exceptions to written policies may only be made with the prior approval of the Finance Committee. Changes or amendments to these policies shall be conducted by the Finance Committee and approved by the Board of Directors on an as needed basis.
- Any violation of these policies and procedures may be considered a cause for termination or removal and, depending upon the nature of the infraction, civil and/or criminal prosecution.

INTERNAL CONTROL STRUCTURE

Background

This manual describes the policies and procedures of EMSA. The policies are designed to safeguard the assets of the school, facilitate compliance with applicable law, and produce timely and accurate financial information in accordance with generally accepted accounting principles (GAAP) and rules and regulations of the Financial Accounting Standards Board (FASB). It is the responsibility of the financial management team to safeguard the school's assets, which include cash, cash equivalents,

and fixed assets. The internal control structure is composed of four basic elements, described in detail below.

Internal Control Environment

The internal control environment reflects the importance EMSA places on internal controls as part of its day-to-day activities. Factors that impact the internal control environment can include management and Board philosophy, organizational structure, ways of assigning authority and responsibility, methods of management and control, personnel policies and practices, and external influences such as significant donor expectations.

Accounting System

EMSA has established an accounting system comprised of the methods and records used to identify, assemble, classify, record, and report accounting transactions. The methods are set up to: (1) identify and record all of the organization's transactions, (2) verify that recorded transactions actually took place, (3) describe the transactions in enough detail to allow classification for financial reporting, (4) ensure transactions are recorded at the appropriate amounts, (5) indicate the time period in which transactions occurred in order to record them in the proper accounting period, and (6) ensure that transactions were properly authorized.

- **Fiscal Year:** The fiscal year is from July 1st to June 30th.
- **Annual Audit:** The school's audited financial statements must be approved by the Board of Directors and provided to the appropriate oversight entity according to all applicable requirements.
- **Annual Budget:** The school's annual budget for the following fiscal year must be drafted for Board review and approved prior to the end of the current fiscal year. The budget may later be revised and approved as necessary.

Internal Control Procedures

EMSA has adopted a number of internal financial controls in order to safeguard the organization's assets. The internal financial controls consist of the following:

- **Segregation of Duties:** A hierarchical structure of authority and responsibility has been developed at EMSA. Tasks are divided and allocated to guard against one individual having the ability to make an accounting error (either knowingly or unknowingly). This protects the school from any potential fraud or misappropriation of funds. In situations where there are an insufficient number of employees to achieve this because of budget constraints, a compensating control has been created at the school.
- **Restricted Access:** Physical access to valuable and moveable assets is restricted to authorized personnel.
- **Document Control:** In order to ensure that all documents are captured by the accounting system, all documents must be saved appropriately.

- **Records Retention:** To provide an accurate and auditable record of all financial transactions, the school's books, records, and accounts are maintained in conformity with GAAP. Records will be maintained for the periods sufficient to satisfy IRS regulations, federal grant requirements, OMB A133 audit requirements, if applicable, and other legal needs as may be determined. Record retention requirements are reviewed annually with legal counsel and independent auditors to determine any necessary changes.
- **Processing Controls:** These are designed to identify any errors before they are posted to the general ledger. Common processing controls are the following: (1) Source document matching; (2) Clerical accuracy of documents; and (3) General ledger account code checking.
- **Reconciliation Controls:** These are designed to identify any errors after transactions have been posted and the general ledger has been run. The process involves reconciling selected general ledger control accounts to subsidiary ledgers.
- **Annual Independent Audit:** EMSA's financial statements are audited annually by an independent audit firm selected by the Board of Directors on the recommendation of the Finance Committee. The audit firm should be engaged to perform the audit within submission timeline dictated by Chicago Public Schools, our authorizer.
- **Security of Financial Data:** The school's accounting software is accessible by the Principal and the Director of Finance and Operations. Individual ID codes and passwords are in place for every user and limit their access and functionality depending on their role within the school. EMSA has elected to utilize a hosted accounting software so that all accounting records and books can be recovered in the event of computer malfunction or loss/deletion of records (accidental or intentional).
- **Risk Assessment:** This is designed to identify, analyze, and manage risk relevant to the preparation of accurate financial statements. It includes mitigating risks involving internal and/or external factors that might adversely affect the school's ability to properly record, process, summarize and report financial data.

Accounting Cycle

The accounting cycle is designed to accurately process, record, summarize, and report transactions of EMSA. EMSA will maintain their accounting records and related financial reports on the accrual basis of accounting or, when necessary to meet specific grant requirements, the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when services are incurred or goods are received.

The component bookkeeping cycles fall into one of five primary functions:

I. Budgets and Financial Reporting

Budgets

- Budgets are created per program annually and updated as needed. Creation of the annual operating budget and capital budget is an iterative process led by the Principal with support from the Director of Finance and Operations and input from other staff members as appropriate.

- Once complete, the Principal presents the overall budget to the Finance Committee for review. If/when the Finance Committee is satisfied, the budget is then presented to the entire Board for a vote of approval. The budget must be approved and passed before the start of the new fiscal year. Once approved, the implementation of, and accountability for, the budget is the sole responsibility of the Principal and the Director of Finance and Operations.
- An approved budget authorizes the Principal, Board President and/or Treasurer to hire staff, enter into contracts and procure goods and services for the school according to the Procurement Policy.
- Any deviation 1) greater than 3% of the budgeted expenses, 2) that results in a decrease to projected Net Income by more than 3%, or 3) that results in negative projected Net Income must be reviewed and approved by the Board of Directors.
- From a day-to-day operational standpoint, the Principal may work with the Treasurer of the Board of Directors or the President of the Board of Directors to resolve questions or issues related to the budget.

Financial Reporting

- Before each Board meeting, the following will be sent to the Finance Committee for review: (1) the budget vs. actual report for the operating budget; (2) the balance sheet; and (3) the enrollment budget vs. actual report. The Principal will present these reports to the entire Board at each meeting. The Finance Committee may also request an update on capital expenditures or cash flow projections through the end of the fiscal year to identify the months that cash flow may run negative.
- At the end of the year, the following key financial statements are produced:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Functional Expense

II. Revenue, Accounts Receivable, and Cash Receipts

Key tasks in this area include:

- Processing cash receipts
- Making deposits
- Recording cash receipts in the general ledger and subsidiary records
- Performing month-end reconciliation procedures
- Processing general ledger integration for private donations/revenue
- Processing wire transfers into school accounts

III. Purchases, Accounts Payable, and Cash Disbursements

Key tasks in this area include:

- Authorizing the procurement of goods and/or services
- Processing purchases (credit card, check, reimbursement)
- Processing invoices
- Issuing checks

- Recording checks in the general ledger and in cash disbursement journals
- Performing month-end reconciliation procedures
- Year-end reporting: Preparing 1099 forms
- Processing wire transfers out of school accounts

IV. Payroll

Key tasks in this area include:

- Obtaining and gathering payroll information
- Preparing payroll checks and depositing payroll taxes
- Submitting information to the third party service provider for processing
- Performing quarterly reconciliation
- Preparing quarterly payroll tax returns
- Preparing W-2s, the W-3, and other annual payroll tax returns

EMSA's payroll process will be performed by a third party service provider. Their responsibilities include calculating appropriate amounts for taxes to be remitted to the Federal, State and City government agencies and voluntary and/or statutory deductions that may or may not require remittance to retirement plan directors, child support agencies, etc.

V. General Ledger and Financial Statements

Key tasks in this area include:

- Preparing monthly journal entries
- Reconciling bank accounts and other general ledger accounts
- Reviewing general ledger activity and recording adjusting journal entries
- Preparing the financial statements
- Preparing the annual budget

The ongoing maintenance of the general ledger and preparation of financial statements will be performed by Director of Finance and Operations. Financial information will be reviewed by the Principal at least on a monthly basis.

The general ledger process consists of posting the period's transactions to an accounting software, which produces the financial statements. The Director of Finance and Operations will reconcile bank and credit card accounts, enter payroll, review the general ledger, and prepare for the annual audit.

The Principal presents monthly statements to the Board of Directors at each Board meeting. The required statements are outlined in the following section.

The Principal, assisted by the Director of Finance and Operations, is responsible for creating and updating multi-year budget projections for the school. In addition, the Principal will prepare the annual operating budget of income and expenses and the capital budget for the school. These budgets and the multi-year projections are reviewed and approved annually by the Finance

Committee of the Board and finally by the school's Board of Directors and modified as necessary, with approval by the last day of the closing fiscal year. This process is described below.

PROCESSING CASH RECEIPTS AND REVENUE

Background

- EMSA records revenue on the accrual basis of accounting in accordance with GAAP.
- EMSA receives revenues from the following primary sources:
 - Federal Government
 - State Government
 - City Government
 - Corporations
 - Foundations
 - Individuals
- If total federal support for the fiscal year should exceed \$500,000, an additional audit under the guidance of OMB Circular A-133 will be conducted.

Processing and Recording Cash Receipts by Mail

1. Mail is sorted and delivered by the front office support staff.
2. All check donations will be given directly to the Director of Finance and Operations (or placed in the designated location at the Director of Finance and Operations desk).
3. At receipt, the Director of Finance and Operations will restrictively endorse each check. A copy of each check will also be made and filed digitally in the front office for purposes of tax receipt and thank you letter.
4. The Director of Finance and Operations will make the appropriate journal entry and maintain a file for deposits.
5. The Director of Finance and Operations will deposit all checks on a weekly basis.
6. The Principal will prepare a thank you note for all donations.

Processing and Recording Cash Receipts by Credit Card

1. Credit card receipts will be processed by a third party vendor.
2. Credit card transactions for student fees or uniforms are logged in third party vendor system, which houses transaction data.
3. Credit card transactions that take place online trigger an email directly to the Director of Finance and Operations. If for a specific event, these are logged in a Google Spreadsheet shared with Board or staff members in charge of the event. If purely a donation, this email is forwarded to the Director of Finance and Operations in order to process tax receipt and thank you letter.
4. The Director of Development and Partnerships will prepare a thank you note for all donations.

Processing and Recording Cash Receipts

1. All in person cash receipts will be processed through a Point of Sale system which will generate electronic receipts. Cash received for student fees will also be logged on designated excel spreadsheets as indicated above.
2. A safe is kept in Principal's office. The only individuals with the code required to open the safe are the Director of Finance and Operations and the Principal. The safe should not be opened without two administrative staff present.
3. Change is kept in a cash box, stored in the Director of Finance and Operation's desk. On a weekly basis the cash box balance is reduced to \$100 and only small payments (below \$25) are placed in the cash box throughout the week (payments over \$25 should go directly in the safe). The only individuals authorized to access the cash box are: the Director of Finance and Operations, the Principal, and the [Front Office Clerk].
4. All large sums of cash (over \$25) should be placed in an envelope, sealed, and a description, the amount, the date, and the staff initials should be written on the front. The envelope should then be dropped into the safe.
5. A cash reconciliation and deposit is completed at a minimum on Monday of each week. All cash received will be secured in a safe and deposited on a weekly basis, or immediately if total amount is over \$1,000.
6. The reconciliation is completed by the Director of Finance and Operations and reviewed by the Front Office Clerk. This includes a count of cash by both individuals. After the reconciliation is completed, a Cash Count Form is completed and signed by the Director of Finance and Operations and also signed by the Front Office Clerk.
7. The money should then be deposited in the bank account on Monday afternoon by the Director of Finance and Operations. By Wednesday, the [ED/Principal] should compare the completed Cash Count Form to the Deposit Slip from the bank to ensure they match. The Cash Reconciliation, Cash Count Form, and Deposit Slip should then be scanned and saved to Drive.
8. An acknowledgement letter shall be made and sent to all donors making donations of more than \$25; the Principal will designate who shall prepare such letters.

Processing and Recording Cash Receipts by Wire

1. The Director of Finance and Operations will monitor the bank account on a weekly basis to identify cash receipts via wire.
2. Sources of all wire transfers will be identified and recorded in the accounting system.
3. An acknowledgement letter shall be made and sent to all donors making donations of more than \$25; the Principal will designate who shall prepare such letters.

Processing Donated Stocks

1. In the event that the school receives donated stocks from a donor, the stocks should be valued and recorded in the accounting system at the time of receipt.
2. The value of the stock donation will be calculated as the closing price on the day it was donated.

3. The bank shall be instructed to sell any securities immediately upon receipt and transfer the cash to the EMSA's checking account.
4. An acknowledgement letter stating the value of the donated stocks will be sent to the donor; the Principal will designate who shall prepare such letter.

Processing Donated Goods and Services

1. Donated goods and services can include professional services such as outside counsel's legal advice, food, clothing, furniture and equipment, or bargain purchases of materials at prices less than market value.
2. In addition, volunteers can provide free services, including administrative services, participation in fundraising events, and program services that are not accounted for.
3. Donated services will be recorded in the system at fair value or avoided cost, as determined by the donor and documented in writing. EMSA will not provide a value for any donated good and/or service.
4. An acknowledgement letter stating the services provided will be sent to the donor; the Principal will designate who shall prepare such letters.

PROCESSING PURCHASES

Background

- EMSA records expenses on the accrual basis of accounting, consistent with GAAP. By the adoption of the operating budget by the Board of Directors, the Principal becomes both responsible for, and generally authorized to expend, the amounts budgeted.
- Any deviation 1) greater than 3% of the budgeted expenses, 2) that results in a decrease to projected Net Income by more than 3%, or 3) that results in negative projected Net Income must be reviewed and approved by the Board of Directors.
- EMSA procures only those items and services that are required to fulfill the mission and/or fill a bona fide need. Procurements are made using best value contracting, which entails assessing the best value considering quality, performance and price. This is achieved partly by the Director of Finance and Operations, who also has the annual responsibility of reviewing the newly approved budget to uncover patterns of orders and opportunities for clustering orders to achieve volume discounts.

EMSA adheres to the following objectives:

- Procurements will be completely impartial based strictly on the merits of supplier and contractor proposals and applicable related considerations such as delivery, quantity, quality, etc.
- The school will make all purchases in the best interests of the school and its funding sources.
- The school will obtain quality supplies/services needed for delivery at the time and place required.
- The school will buy from reliable sources of supply.
- The school will obtain maximum value for all expenditures.
- The school will deal fairly and impartially with all vendors.
- The school will be above suspicion of unethical behavior at all times; avoid any conflict of interest, related parties or even the appearance of a conflict of interest in an EMSA supplier relationships. The school's conflict of interest policies are described in its bylaws.
- The school will make a reasonable effort to include minority, women and otherwise disadvantaged persons-owned vendors in the bidding.

Competitive Bidding Procedure

- Contracts under \$25,000: The school uses sound business practices when procuring goods and services for amounts less than \$25,000.
- Contracts greater than \$25,000: The school seeks price quotes from at least three vendors and awards the contract to the responsible vendors offering the supply or service needed for the lowest price. The Director of Finance and Operations and the Principal are responsible for soliciting these quotes, and the Principal and Board provides final approval. Award may be made to a vendor other than the low bidder in circumstances where the higher bid

demonstrates the best value to the school. In such situations, the Director of Finance and Operations shall prepare a justification statement for such awards, furnishing a brief explanation of the factors leading to such a decision, and the Principal approves the final bid.

- **Exemptions:** Contracts for specialized services by professional persons or groups may be awarded on the basis of recognized competence and integrity. Exemptions must be documented through a justification statement and approved by the Principal. Example services include, but are not limited to:
 - Legal counsel
 - Financial auditors
 - Financial consultants
 - Management consultants
 - Special education and mental health services
 - Training / professional development services
 - Architectural services
- **Sole Vendors:** If the vendor is providing a unique service that is not offered by other vendors then they are called “sole vendors” and no bidding is required. However, it does require a justification statement describing the unique service.

Approval

The chart below outlines the thresholds related to pre-approval of purchase orders:

| TYPE | THRESHOLD | APPROVER |
|--|------------|------------------------------------|
| Purchases approved by the Board in the annual budget | ≤ \$2,500 | Director of Finance & Operations |
| Purchases approved by the Board in the annual budget | ≤ \$10,000 | Principal |
| Purchases approved by the Board in the annual budget | > \$10,000 | Board Treasurer or Board President |

1. Approval to fulfill a purchase order is garnered by submitting a Purchase Request using the [procurement system]. Any staff member may make a Purchase Request.
2. Once complete, the form is submitted to the Director of Finance and Operations for review and approval. Any purchases over \$2,500 also requires the approval and signature of the Principal.
3. Once approval is granted, the requestor will be notified and the purchase will be processed by the Director of Operations.
4. In the event that an item must be purchased and the proper approver is not available, the signatory may send an email granting approval for the purchase.
5. The Purchase Order may then be executed. By approving a Purchase Request, EMSA acknowledges that the items requested are intended for a specific instructional purpose.

6. Only the Director of Finance and Operations and the Principal are authorized to make orders. This includes online orders on commonly used sites (e.g. Amazon). In the event that the Director of Finance and Operations is unavailable, the Principal can place orders directly.

Issuance and Monitoring of Purchase Orders

- The Director of Finance and Operations works closely with the Principal to ensure that all necessary instructional and administrative purchases are made in a timely and cost-effective manner and, when applicable, in accordance with grant restrictions.
- The Director of Finance Operations creates a Purchase Order (PO), and based on the total value of the Purchase Order, forwards it to the proper individual(s) for approval.
- In the event that an item must be purchased and the proper signatory is not available to provide approval, the approver may send an email stating his or her name and granting approval to execute the Purchase Order. The purchase may then be executed. By approving the Purchase Request, EMSA staff acknowledges that the items requested are intended for a specific instructional purpose. Once the Purchase Order is approved, the Director of Finance and Operations will review and then sends the order to the vendor, accompanied by any required documentation.

Receipt of Goods

- All goods purchased by the school are delivered directly to the school. The front office support staff or the Director of Finance and Operations sign for delivery. The front office support staff is also responsible for opening the box(es) and obtaining the packing slip(s). The packing slip will be reviewed for accuracy, checked against the original PO, and filed.
- If the order is not correct, the Director of Finance and Operations will contact the vendor for a return/credit to the account. When discrepancies occur, they are to be resolved by the Director of Finance and Operations and/or Principal.

Exemption from Sales Tax

EMSA is exempt from state and federal tax. As such, the school is exempt from sales taxes on goods purchased for their own internal use and services. It is the responsibility of the Director of Finance and Operations to ensure that all vendors have a copy of the exemption letter or EIN number and 501(c)3 forms allowing the organization to be exempt from sales taxes.

Travel Expenses

Included in the approval of travel arranged by EMSA is the implicit approval for a per diem allocation of, per person, \$20.00 (twenty) per half-day and \$40.00 for full day. This is specifically designated for meals; alcoholic beverages shall not be indicated on a receipt to be reimbursed. The school will also allow a reasonable allocation for travel to and from the airport in Chicago. If required, all lodging and transportation expenses (e.g. rental car) will be pre-approved through arrangement of the trip.

PROCESSING CASH DISBURSEMENTS

Processing Invoices

- All invoices are mailed to EMSA directly or emailed to [accounting@elginmathandscience.org]. The front office support staff are responsible for opening and sorting all mailed invoices. All invoices will be placed in the designated place on the Director of Finance and Operations desk.
- The Director of Finance and Operations will use the purchasing system to ensure that all items have been received prior to paying invoices.
- Invoices shall be processed weekly by the Director of Finance and Operations. The Director of Finance and Operations establishes the vendor file and reviews the invoice for recording in the general ledger and ensures that copies of documentation are saved and recorded appropriately in the general ledger.

Processing Reimbursements

- Reimbursements to EMSA staff will be made, so long as approval is obtained for those specific expenditures prior to purchase and receipts are provided.
- Once expenses have been incurred, requests for reimbursement should be made within 30 days of expense via an Expense Reimbursement Form. All receipts should be taped onto blank sheets of paper and attached to the form, along with a copy of the original Purchase Request Form. These documents are submitted to the Director of Finance and Operations for review and approval.
- Employees should note that the school is tax exempt and therefore does not reimburse employees for tax. A copy of the Tax Exempt Certificate may be obtained from the Director of Finance and Operations.

Cutting Checks

- The Director of Finance and Operations will maintain all blank checks stock in a locked location. All checks will be pre-numbered, voucher style, containing one stub for the vendor (attached to all outgoing checks) and one to be filed by the Director of Finance and Operations with all supporting disbursement documents.
- Checks are run on a weekly basis, and vendors are paid based on terms of the invoices, as recorded within the system. Check preparation and signatures are prepared not later than the due date.
- All checks up to \$10,000 will be signed by the Principal. In her absence, the Director of Finance and Operations can request formal approval via email from the Principal, Board Chair or Board Treasurer to sign on her/his behalf. Checks above \$10,000 require signature by both the Principal and the Board Treasurer or Board President.
- At the time the check is signed, any required signatories should review the supporting documentation to ensure they are signing a check for the correct amount and to the correct

payee. The Director of Finance and Operations sends the check to the vendor awaiting payment and then file and save check stub and documentation appropriately.

- In no event shall an authorized signatory approve an invoice, execute a check, or authorize a disbursement of any kind, payable to him/herself.
- Any and all voided checks should be stamped "void" with the date and shred.

Recurring Expenses

Recurring expenses that exceed the thresholds stated above can be approved once annually by the Board Treasurer, and then will not need to be approved monthly moving forward (e.g. if health insurance payments exceed \$10,000 per month, the Treasurer may approve that payment one time and provide written approval for future payments).

Petty Cash Account

In order to accommodate cash payments for school fees and uniforms, as well as unforeseen emergency requests, EMSA will hold \$105 petty cash on hand to make change.

MANAGEMENT OF CASH

Accounts

In the event that the organization wishes to open a new bank account or brokerage account, Board approval is required. As part of the approval, the Board must describe the purpose of the account, signatories, and signatories' authority. The vote to approve and all associated determinations must be recorded in the Board minutes. Should the school wish to close a bank account, Board approval is also required and will be documented in Board minutes.

Bank Statements and Reconciliation

Bank statements are set for electronic delivery only and can be accessed via online banking. The Director of Finance and Operations will prepare a bank reconciliation for all bank accounts on a monthly basis. A bank reconciliation report along with copies of the bank statements are submitted to the Principal and Board Treasurer for review.

Investment of Funds

At present, EMSA does not have any investment accounts. Should the Board wish to open an investment account, the Finance Committee will draft an investment policy at that time.

Transfer of Funds

The Principal and the Director of Finance and Operations have the ability to transfer funds between established EMSA accounts; they also have the ability to draw against the line of credit in amounts up to \$50,000 for pre-approved budgeted expenses. Any draw in excess of \$50,000 requires the notification of the Board President or Treasurer prior to execution.

PROPERTY AND EQUIPMENT

Background

- The Director of Finance and Operations and the Principal are responsible for ensuring that accurate inventories are maintained so that all assets are safeguarded.
- The Director of Finance and Operations is responsible for maintaining the equipment and all necessary asset inventories. All assets must be recorded both in the accounting system's general ledger under the fixed asset category and in a separate fixed asset inventory spreadsheet, created in Excel. All property and equipment subject to the school's Capitalization policy must be recorded in the manner described below and depreciated according to the school's Depreciation policy.
- Upon receiving any property that qualifies as a fixed asset, the Director of Finance and Operations will work to ensure that the following information is logged appropriately:
 - Asset name and description
 - Classification (i.e. land, building, equipment, leasehold improvements, furniture, fixtures, computer hardware and software, etc.)
 - Serial number, model number, or other identification
 - Whether title vests with EMSA or a governmental agency
 - Vendor name and acquisition date
 - Purchase Date
 - Purchase Value
 - Capitalization Date
 - Book Value
 - Accumulated Depreciation
 - Useful Life
 - Disposal Date
 - Disposal Reason
- No employee may use any of the school property, equipment, material, or supplies for personal use without the prior approval of the Principal.
- No item of property or equipment shall be removed from the premises without prior approval of the Principal.

Capitalization Policy

- The cost threshold for items purchased by EMSA to capitalize is \$2,500. Items with an acquisition cost of less than \$2,500 or a useful life of less than one year are expensed in the

year purchased. Items with an acquisition cost of more than \$2,500 are capitalized and are subject to the school's depreciation policy, outlined below.

- There may be instances where depending upon the nature of the purchase, and the expected useful life of the purchase, an item costing less than \$2,500 may be capitalized. The choice to capitalize an expenditure will be left to the discretion of the Director of Finance and Operations and the Principal.

Inventory Audit

- The Director of Finance and Operations performs annual inventory audits, verifying and updating the data for fixed assets. The Director of Finance and Operations should also note if inventory appears to be impaired, damaged, or obsolete.
- The Principal should be notified if any inventory items are lost, damaged, stolen, or in any way impaired.

Depreciation Policy

Any items subject to the Capitalization policy described above are subject to depreciation. The Director of Finance and Operations will account for depreciation based on the school's inventories and Depreciation policy. Depreciation associated with the fixed assets will be calculated based on the fixed assets' useful lives using the straight-line depreciation method.

| TYPE | DEPRECIATION RATE |
|----------------------------|-------------------|
| Software | 3 Years |
| Technology Equipment | 4 Years |
| Office/Classroom Equipment | 5 Years |
| Office/Classroom Furniture | 7 Years |
| Leasehold Improvements | Life of the Lease |

Any item that is rendered obsolete (damaged beyond use) will be taken out of service and fully written off in the accounting records.

BUDGETING OF FUNDS

- The Principal is responsible for developing a proposed budget for each program and for the organization as a whole, with assistance from the Director of Finance and Operations and other relevant staff, and presenting it to the Finance Committee of the Board of Directors for annual review.
- The Board shall approve the budget by June 30 of each year, and thereafter, the implementation of and accountability for it will be the responsibility of the Principal and the Director of Finance and Operations. The Principal and the Director of Finance and Operations are permitted to make minor adjustments to the budget throughout the year, limited to shifting dollar amounts between line items without changing the overall budget, or changing an expense in response to a change in revenue; modifications outside of these require Board approval.
- Each month, the Director of Finance and Operations shall present to the [Executive Director/Principal] a report on actual versus proposed revenue and expenses. The report shall then be presented to the Finance Committee for their review, and all monthly reports should be analyzed as part of the year-end budgeting process.

AUDITS

- An annual audit shall be conducted by an independent audit firm selected by the Board of Directors on the recommendation of the Finance Committee. The audit firm should be engaged to perform the audit within submission timeline dictated by its authorizer, and the audit will be conducted in accordance with GAAP.
- If necessary, the Board of Directors may appoint an audit committee to aid with the selection of an independent audit firm.
- The annual audit will meet all the requirement of the school's authorizing body.
- The annual audit will be submitted to the Finance Committee. The Finance Committee will then review and approve the audit before presenting the audit results to the Board.

PAYROLL

Hiring

- Approval of the annual budget authorizes the Principal to hire staff.
- Should the Principal wish to hire staff for the following fiscal year prior to budget approval, the Principal will submit a hiring plan to the Board for approval.

Compensation

- An approved budget authorizes the Principal to determine compensation for all staff members including bonuses, if applicable. The Principal's salary will be determined by the Board.
- Total compensation cost will be accrued and expensed as deemed appropriate by the Director of Finance and Operations in accordance with GAAP.

Processing Payroll

- The Director of Finance and Operations will prepare the payroll, which will be processed by an outsourced third party vendor. The Principal will review and approve the payroll.

- All payroll documents received by the school will be checked for accuracy by the Director of Finance and Operations; this will include confirming timesheets (if applicable), pay rates, deductions, and work absentees.
- The third party vendor will prepare all payroll tax documentation, which will be reviewed by the Director of Finance and Operations.

EMSA Summary Steps in Budget Development and Spending:

| | Annual Operating Budget (and a multi-year plan) | Capital Expenditure Budget |
|--|---|---|
| Step One | CFO and Principal develop Draft in consultation with advisors, finance committee, and consultants | CFO and Principal develop Draft in consultation with advisors, finance committee, facilities committee, and consultants |
| | As part of the budgeting process, the CFO or Principal may seek informal quotes to quantify costs, etc. Note: Only authorized individuals can seek quotes or approach vendors in the name of the school. | As part of this budgeting process, the CFO, Principal, or designee (e.g., architect, general contractor, owner’s representative) may seek informal quotes to quantify costs, etc. Note: Only authorized individuals can seek quotes or approach vendors in the name of the school. |
| | | CAPX Budget can take the form of a spreadsheet and should identify: 1) Project, 2) Timing, 3) Cost or cost range, 3) Cash flow timing and 4) Source of funding |
| Step Two | CFO and Principal will present draft budget to Finance Committee for discussion and evaluation (the process may incorporate several drafts and meetings) | CFO and Principal will present draft budget to Finance and the Facilities committees for discussion and evaluation (the process may incorporate several drafts and meetings) |
| | | |
| Step Three | The CFO should simultaneously develop cash flow projections to support both the operating and capital budgets. | The CFO should simultaneously develop cash flow projections to support both the operating and capital budgets. |
| | | |
| Step Four Must be approved before start of each Fiscal Year. | Once the budget is finalized and approved at the committee level, it is to be presented to the full board for approval. | Once the budget is finalized and approved at the committee levels (Finance and Facilities for capital expenditures related to facilities), it is to be presented to the full board for approval. |

| | | |
|--|---|---|
| | Once approved, the implementation of and accountability for the budget is the responsibility of the Principal and CFO | Once approved, the implementation of and accountability for the capital expenditure budget is the responsibility of the Principal and CFO (and General Contractor or Owner's Representative, if applicable) |
| | Any deviation greater than 3% in an expense category or net Income must be reported and explained to the Board | Deviations and changes should be reported to board |

Other Notes:

Purchasing:

- Only the CFO is authorized to place orders. If the CFO is not available, the Principal is authorized to make purchases

Competitive Bidding Procedures:

- Contracts over \$25,000: The CFO is responsible for seeking at least three quotes. If the contract is not awarded to the lowest bidder the CFO shall document why the specific vendor was chosen.

Purchase Order Approvals:

- Any employee can request a purchase order, but approval is subject to the following:

| TYPE | THRESHOLD | APPROVER |
|--|------------------|------------------------------------|
| Purchases approved by the Board in the annual budget | ≤ \$2,500 | Director of Finance & Operations |
| Purchases approved by the Board in the annual budget | ≤ \$10,000 | [Executive Director/Principal] |
| Purchases approved by the Board in the annual budget | > \$10,000 | Board Treasurer or Board President |

EMSA Summary Steps in Budget Development and Spending for Its Planning Year (until September 1, 2018):

| | Annual Operating Budget (and a multi-year plan) | Capital Expenditure Budget |
|--|---|--|
| Step One | CFO, Principal, and Board President develop Draft Budget in consultation with advisors, finance committee, and consultants | CFO, Principal, and Board President develop Draft in consultation with advisors, finance committee, facilities committee, and consultants |
| | As part of the budgeting process, the CFO, Principal, or Board President may seek informal quotes to quantify costs, etc. Note: Only authorized individuals can seek quotes or approach vendors in the name of the school. | As part of this budgeting process, the CFO, Principal, Board President, or designee (e.g., architect, general contractor, owner's representative) may seek informal quotes to quantify costs, etc. Note: Only authorized individuals can seek quotes or approach vendors in the name of the school. |
| | | CAPX Budget can take the form of a spreadsheet and should identify: 1) Project, 2) Timing, 3) Cost or cost range, 3) Cash flow timing and 4) Source of funding |
| Step Two | CFO, Principal and Board President will present draft budget to Finance Committee for discussion and evaluation (the process may incorporate several drafts and meetings) | CFO, Principal, or Board President will present draft budget to Finance and the Facilities committees for discussion and evaluation (the process may incorporate several drafts and meetings) |
| | | |
| Step Three | The CFO should simultaneously develop cash flow projections to support both the operating and capital budgets. | The CFO should simultaneously develop cash flow projections to support both the operating and capital budgets. |
| | | |
| Step Four Must be approved before start of each Fiscal Year. | Once the budget is finalized and approved at the committee level, it is to be presented to the full board for approval. | Once the budget is finalized and approved at the committee levels (Finance and Facilities for capital expenditures related to facilities), it is to be presented to the full board for approval. |
| | Once approved, the implementation of and accountability for the budget is the responsibility of the Principal and CFO (ADD PRESIDENT?) | Once approved, the implementation of and accountability for the capital expenditure budget is the responsibility of the Principal and CFO (and General Contractor or Owner's Representative, if applicable) |

| | | |
|--|--|--|
| | Any deviation greater than 3% in an expense category or net Income must be reported and explained to the Board | Deviations and changes should be reported to board |
|--|--|--|

Other Notes:

Purchasing:

- Only the CFO is authorized to place orders. If the CFO is not available, the Principal is authorized to make purchases

Competitive Bidding Procedures:

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| Purchases approved by the Board in the annual budget | > \$10,000 | Board Treasurer or Board President |

BORROWING FUNDS

- EMSA records short-term and long-term liabilities on the accrual basis of accounting, consistent with GAAP.
- Based on the most recent audited financial statements and cash flow projections, the Principal may establish credit lines and borrowing limits as needed. All short-term and long-term debt and the establishment or increase of all credit lines must be approved by the Board of Directors.
- Loan agreements approved by the Board of Directors should be in writing and should specify all applicable terms, including the purpose of the loan, the interest rate, collateral used to secure the loan (if applicable), and the repayment schedule. The approved agreement will be signed by the Board President or Treasurer prior to the borrowing of funds.
- Providing loans to EMSA employees is not allowed.

BUDGETING OF FUNDS

- The Principal is responsible for developing a proposed budget for each program and for the organization as a whole, with assistance from the Director of Finance and Operations and other relevant staff, and presenting it to the Finance Committee of the Board of Directors for annual review.
- The Board shall approve the budget by June 30 of each year, and thereafter, the implementation of and accountability for it will be the responsibility of the Principal and the Director of Finance and Operations. The Principal and the Director of Finance and Operations are permitted to make minor adjustments to the budget throughout the year, limited to shifting dollar amounts between line items without changing the overall budget, or changing an expense in response to a change in revenue; modifications outside of these require Board approval.
- Each month, the Director of Finance and Operations shall present to the Principal a report on actual versus proposed revenue and expenses. The report shall then be presented to the Finance Committee for their review, and all monthly reports should be analyzed as part of the year-end budgeting process.
- Should the Principal wish to hire staff for the following fiscal year prior to budget approval, the Principal will submit a hiring plan to the Board for approval.

AUDITS

- An annual audit shall be conducted by an independent audit firm selected by the Board of Directors on the recommendation of the Finance Committee. The audit firm should be engaged to perform the audit within submission timeline dictated by its authorizer, and the audit will be conducted in accordance with GAAP.
- If necessary, the Board of Directors may appoint an audit committee to aid with the selection of an independent audit firm.
- The annual audit will meet all the requirements of the school's authorizing body.
- The annual audit will be submitted to the Finance Committee. The Finance Committee will then review and approve the audit before presenting the audit results to the Board.

PAYROLL

Hiring

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- Total compensation cost will be accrued and expensed as deemed appropriate by the Director of Finance and Operations in accordance with GAAP.

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- The Director of Finance and Operations will prepare the payroll, which will be processed by an outsourced third party vendor. The Principal will review and approve the payroll.
- All payroll documents received by the school will be checked for accuracy by the Director of Finance and Operations; this will include confirming timesheets (if applicable), pay rates, deductions, and work absences.
- The third party vendor will prepare all payroll tax documentation, which will be reviewed by the Director of Finance and Operations.

RECORDS RETENTION

Records Retention Policy

- All confidential paper records shall be maintained in locked facilities on school premises, with access granted only to authorized individuals.
- EMSA will follow the minimum records retention guidelines outlined below, as advised by Donors Forum, a member of the National Council of Non-Profits for the State of Illinois.
- EMSA will follow the applicable State and Federal laws regarding student record retention.

| TYPE | RETENTION PERIOD |
|--|------------------|
| ACCOUNTING & FINANCE | |
| Accounts Payable Ledgers and Schedules | 7 Years |
| Accounts Receivable Ledgers and Schedules | 7 Years |
| Annual Audit Reports and Financial Statements | Permanent |
| Annual Audit Records and Related Documents | 7 Years |
| Annual Plans and Budgets | 2 Years |
| Bank Statements and Canceled Checks | 7 Years |
| Employee Expense Reports | 7 Years |
| General Ledgers | Permanent |
| Interim Financial Statements | 7 Years |
| Notes Receivable Ledgers and Schedules | 7 Years |
| Investment Records | 7 Years |
| Credit Card Records | 2 Years |
| CONTRACTS | |
| Contracts and Related Correspondence | 7 Years |
| Corporate Records (articles of incorporation, bylaws, minutes, etc.) | Permanent |
| Licenses and Permits | Permanent |

| TYPE | RETENTION PERIOD |
|---|-------------------------------|
| GRANTS | |
| Original Grant Proposal | 7 Years |
| All Grant-Related Documents | 7 Years |
| All Requested IRS/Grantee Correspondence | 7 Years |
| Final Grantee Reports, Both Financial and Narrative | 7 Years |
| All Evidence of Returned Grant Funds | 7 Years |
| INSURANCE | |
| Annual Loss Summaries | 10 Years |
| Audits and Adjustments | 3 Years |
| All Claim Files | Permanent |
| Inspections | 3 Years |
| Insurance Policies (including expired policies) | Permanent |
| Releases and Settlements | 25 Years |
| MISCELLANEOUS | |
| Consultant's Reports | 2 Years |
| Policy and Procedures Manuals - Original | Current with Revision History |
| Annual Reports | Permanent |
| Retirement Documents & Contribution Records | Permanent |
| PAYROLL | |
| Employee Deduction Authorizations | 4 Years |
| Payroll Deductions | 7 Years |
| W-2 and W-4 Forms | 7 Years |
| Garnishments, Assignments, Attachments | 7 Years |
| Payroll Registers (gross and net) | 7 Years |
| Time Cards/Sheets | 2 Years |
| Unclaimed Wage Records | 6 Years |

| TYPE | RETENTION PERIOD |
|--|------------------|
| PERSONNEL | |
| Employee Earnings Records | 7 Years |
| Employee Handbooks | Permanent |
| Employee Medical Records | 6 Years |
| Employee Personnel-Related Records | 6 Years |
| Employment Contracts - Individual | 7 Years |
| Employment Records - Hired Employees | 3 Years |
| Employment Records - Non-Hired Employees | 4 Years |
| Job Descriptions | 3 Years |
| Personnel Count Records | 3 Years |
| Forms I-9 | 3 Years |
| PROPERTY | |
| All Property-Related Documents | Permanent |
| Original Purchase/Sale/Lease Agreement | Permanent |
| Property Insurance Policies | Permanent |
| TAX | |
| Tax-Exemption Documents and Related Correspondence | Permanent |
| IRS Rulings | Permanent |
| Payroll Tax Records | 7 Years |
| Tax Bills, Receipts, Statements | 7 Years |
| Tax Returns | Permanent |
| IRS or other Government Audit Records | Permanent |

Originals of the following corporate documents are maintained on-site and/or online in EMSA designated folders and the Director of Finance and Operations verifies their presence on a periodic basis:

- Charter and all related amendments
- Minutes of the Board of Directors and subcommittees
- Banking agreements

- Leases
- Insurance policies
- Vendor invoices
- Grant and contract agreements
- Fixed asset inventory list

Records Access Policy

The Principal will provide access to the organization's records and provide supporting records, as requested by government or external auditors to facilitate the completion of such audits or reviews, in a timely manner.

Records Destruction Policy

- The destruction of confidential school records will be authorized by the Principal in accordance with EMSA's Record Retention policy. Should the Principal be unable to provide authorization, destruction will be stayed pending review and final determination.
- If any litigation, claim, or audit is started before the expiration of the designated retention period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.
- Once school records have reached the conclusion of their retention period according to the Records Retention policy, the Director of Finance and Operations will request authorization from the Principal for their destruction.
- The school will arrange for the safe and secure destruction of confidential records. Destruction methods will not permit recovery, reconstruction and/or future use of confidential information. An overview of these methods follows:
 - Paper records containing confidential information should be shredded, not simply thrown out with other classes of records or with miscellaneous trash.
 - Electronic files containing confidential information should be deleted in a manner that completely removes the file from the computer or storage device. It is also recommended that files stored on a hard drive be erased using commercially available software applications. With regard to digital storage devices, it is recommended that these be physically destroyed.
 - A destruction record exists to track the destruction of any and all documents. This inventory describes and documents those records, in all formats, authorized for destruction, as well as the date, agent, and method of destruction. The destruction record itself shall not contain confidential information. The destruction record may be retained in paper, electronic, or other formats.

INSURANCE

Coverage

- Insurance coverage is maintained pursuant to applicable law, including bonding for cash procedures and Directors and Officers insurance, and will be selected and reviewed in accordance with EMSA's Insurance policy. Pre-approval for insurance expenses will be required as outlined in the school's purchasing policy.
- EMSA will maintain insurance policies in accordance with requirements as listed in the charter agreement with the school's authorizing body.
- EMSA requires proof of adequate insurance coverage from all prospective contractors, as deemed applicable by the Board of Directors.

Review

- The Board of Directors, Principal, and Director of Finance and Operations will conduct an annual review of coverage amounts, or upon renewing any policy. The purpose of this review will be to ensure there are adequate means by which to preserve the school's assets and lower the risk of being underinsured.
- Any proposed changes must be approved by the Board of Directors and recorded in Board meeting minutes. New coverage will be executed by the Principal. The Principal is responsible for procuring annual renewals with the school's insurance broker in conjunction with assistance from the Board of Directors.

Records

- The Director of Finance and Operations maintains original copies of all insurance policies at the school. When possible, copies of all current insurance policies are saved electronically on a server where the leadership team can view and access the information.
- All insurance and related documents will be saved in accordance with the school's Record Retention policy.