



MAGNOLIA PUBLIC SCHOOLS

Board Of Directors

Board Agenda Item #	II A
Date:	November 5, 2015
To:	MPS Finance Committee
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Approval of Changes in Financial Policies

Proposed Board Recommendation

I move that the MPS Finance Committee makes a motion to make the recommendation to the full MPS Board to approve the revisions to the financial policies as presented.

Background

As of July 1, 2015, EdTec initiated back-office service functions for Magnolia Public Schools. EdTec has been hired to provide a fully-outsourced solution that includes budgeting, financial statement preparation, accounting, accounts payable processing, training, government financial reporting, payroll, and audit support.

The proposed revised changes to the financial policies are based on the new functions provided by EdTec and reflect the new structure that will be effective and applicable for FY 2015-16.

Revised Policies

The following policies have been updated to reflect the new accounting and finance functions:

Cash

CSH101 Cash Boxes
CSH103 Problem Checks
CSH108 Inter-Account Bank Transfers
CSH109 Journal and Reclassification Entries
CSH110 Petty Cash Purchases
CSH112 Intercompany Receivables and Payables
CSH113 Financial Reserves

General & Administrative

G&A103 Travel and Entertainment
G&A104 Management Reports
G&A105 Period-End Review and Closing
G&A107 Taxes and Insurance
G&A115 Accrued Liabilities
G&A116 Notes Payable
G&A117 Financial and Tax Reporting
G&A118 Budgeting
G&A121 School Site Accounting



MAGNOLIA PUBLIC SCHOOLS

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Purchasing

PUR102 General Purchasing
PUR103 Receiving and Inspection
PUR104 Accounts Payable and Cash
Disbursements
PUR105 Prepaid Expenses
PUR106 Reimbursements

Revenue

REV101 Sales Receipt Processing
REV102 Invoicing and Accounts Receivable
REV103 Process Billing
REV105 Revenue Recognition Grants and
Contributions
REV106 Gifts-In-Kind
REV107 Restricted Funds

Fixed Assets

INV102 Fixed Assets Capitalization &
Depreciation

Name of Staff Originator:

Oswaldo Diaz, Chief Financial Officer

Summary of Revisions to MPS Financial Policies -11-12-15

Policy Number	Policy Title	Description of Changes	Description
CSH101	CASH BOXES	Inclusion of back-office service provider process	Bank deposit documentation needs to be emailed to EdTec, in PDF format, for entry into the general ledger on a weekly basis.
CSH103	PROBLEM CHECKS	Inclusion of back-office service provider process	EdTec is responsible for processing all check transactions for each school.
CSH108	INTER-ACCOUNT BANK TRANSFERS	Inclusion of back-office service provider process	EdTec monitors the balances in the bank accounts to determine when there is a shortage or excess in the checking account. EdTec recommends to the Chief Financial Officer when a transfer should be made to maximize the potential for earning interest or when funds are needed for processing payroll or other transfer needed. The Chief Financial Officer will determine when to make a transfer and in what amount. After the transfer has been initiated by the Chief Financial Officer, the Chief Executive Officer must log into the online banking system in order to complete the bank transfer process. A copy of the transfer is given to EdTec.
CSH109	JOURNAL ENTRIES AND RECLASSIFICATION ENTRIES	Revision of responsibilities	The Chief Financial Officer is responsible for review and approval of all journal entries and reclassification entries. 1.1 The Chief Financial Officer the Financial Analysts and EdTec monitor the balances in the accounting records of the Organization. It is the policy of MERF that all journal entries not originating from subsidiary ledgers shall be authorized in writing by the Chief Financial Officer initialing or signing the entries.
CSH110	PETTY CASH PURCHASES	Removal of petty cash use	The Organization does not permit the use of petty cash. This applies all petty cash transactions.
CSH112	INTERCOMPANY RECEIVABLES AND PAYABLES (DUE TO/DUE FROM)	Revision of responsibilities	The Finance Department is responsible for alerting EdTec regarding intercompany transactions. EdTec is responsible for recording it into the accounting system, and ensuring accuracy of fiscal year-end balances. The Chief Financial Officer, with the support of the Finance Department and EdTec monitors cash balances daily for the charter schools.
CSH113	FINANCIAL RESERVES	Inclusion of back-office service processes	EdTec is responsible for day to day monitoring of charter school cash accounts and ensuring their accuracy. EdTec will monitor the cash balance for each charter school to ensure its accuracy and to be able to project future amounts.
G&A103	TRAVEL AND ENTERTAINMENT	Inclusion of back-office provider process	The Finance Department will receive and review the expense report documentation and send to EdTec to process necessary employee reimbursement.
G&A104	MANAGEMENT REPORTS	Revision of responsibilities	EdTec will prepare summary reports of vital operating statistics for the Organization, including revenues, current debt, operating cash, accounts receivable and projected short-term cash flows. EdTec will be responsible for assuring effective and informative reporting for the Organization. EdTec will file a copy of repetitive reports for later retrieval, auditing or trend analysis. EdTec will notify the Chief Financial Officer of any shortfall so that the Organization may determine alternative courses of action to rectify the situation.
G&A105	PERIOD-END REVIEW & CLOSING	Inclusion of back-office service provider process	EdTec is responsible for creating and reviewing all period-end activities to ensure the period-end financial statements accurately reflect the results of the Organization's activities. All final closing adjustments should be approved by the Chief Financial Officer.
G&A107	TAXES AND INSURANCE	Inclusion of back-office service provider process	The Financial Analysts are responsible for determining all tax liabilities and fees, and the dates due. EdTec is responsible for ensuring the timely payment of all tax liabilities and fees.
G&A115	ACCRUED LIABILITIES	Inclusion of back-office service provider	The Financial Analysts with the support of EdTec are responsible for ensuring that the accrued liabilities are properly accounted for.
G&A116	NOTES PAYABLE	Changes in responsibilities	EdTec is responsible for ensuring that all notes, loans, and other similar obligations are properly accounted for.

Summary of Revisions to MPS Financial Policies -11-12-15

Policy Number	Policy Title	Description of Changes	Description
G&A117	FINANCIAL AND TAX REPORTING	Inclusion of back-office service provider process	EdTec is responsible for preparing all Organization financial statements. 3.1 All financial statements and supporting schedules shall be reviewed and approved by the Chief Financial Officer, prior to being issued by EdTec. They should be signed by the preparer and the Chief Executive Officer.
G&A118	Budgeting	Inclusion of back-office provider process	The School Site Principals with the support of EdTec are responsible for preparing, monitoring, and implementing the annual school site budget. Principal is responsible for providing information to EdTec so that the back-office service provider can prepare the annual site budget and make revisions as needed. The Finance Department is responsible for reviewing the school site and Organization-wide budgets and budget revisions. Edtec is responsible for preparing monthly budget vs. actual comparison reports. 1.1 The Organization-wide budget will be prepared by the Chief Financial Officer with the support of EdTec.
G&A121	School Site Accounting	Inclusion of back-office provider processes	EdTec, with the support of the Financial Analysts, is responsible for timely and accurate recording of transactions, providing useful management information, and properly reporting such information for various user needs. The Chief Financial Officer is responsible for overseeing the Financial Analysts and providing assistance where needed. Each Charter School will have its own accounting file to assist in maintaining separate accounting for each school, and a separate bank account to avoid comingling of funds. Revenues from fundraising will be recorded in the accounting system using the resource tracking system in order to account for funds received from different events.
INV102	FIXED ASSET CAPITALIZATION & DEPRECIATION	Revision of capitalization policy relating to technology aggregate purchases	Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item.
PUR102	GENERAL PURCHASING	Inclusion of back-office service provider processes	All purchases of goods and services shall be consistent with the Board-approved budget. Chief Financial Officer and the Finance Department are responsible for using good purchasing methods, optimizing price savings, quality or value of products, vendor working relationships, placing orders with approved suppliers, negotiating pricing with suppliers, and forwarding all paperwork to EdTec accounts payable for payment. EdTec accounts payable is responsible for payment of invoices only after satisfactory completion or delivery of goods or services has been made. The School Site Personnel and Other Designated Individuals are responsible for receiving, inspecting materials, and forwarding all paperwork to a designated agent at EdTec.
PUR103	RECEIVING AND INSPECTION	Changes to responsibilities	Purchasing is responsible for accepting or rejecting damaged goods. EdTec is responsible for payment of invoices. The Finance Department will review and authorize all rejections.
PUR104	ACCOUNTS PAYABLE AND CASH DISBURSEMENTS	Inclusion of back-office service provider process	The Principal at each school site is responsible for reviewing and approving payments under \$5,000, in accordance with the approved budget. The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments. The Chief Executive Officer is responsible for reviewing and approving payments over \$10,000 in accordance with the board approved budget, as well as up to \$10,000 for non-budgeted items.
PUR105	PREPAID EXPENSES	Revision of responsibilities	The Chief Financial Officer is responsible for reviewing and authorizing prepaid expenses. The Finance Department with the support of EdTec is responsible for processing prepaid payments and amortizing the prepaid cost of the expected future life of the prepaid asset. The Finance Department shall maintain a schedule of all prepaid expenses.

Summary of Revisions to MPS Financial Policies -11-12-15

Policy Number	Policy Title	Description of Changes	Description
PUR106	REIMBURSEMENTS	Inclusion of back office service provider and amount limit changes.	The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments. EdTec accounts payable is responsible for payment of reimbursements in a timely manner. A timely manner is defined as within two weeks upon submission to EdTec accounts payable.
REV101	SALES RECEIPT PROCESSING	Inclusion of back-office service provider process	EdTec approves sales receipt documentation. 1.1 Sales Receipts are often used for Parenting Fees and other similar fees and require completion of the EdTec Deposit Log
REV102	INVOICING, ACCOUNTS RECEIVABLE, RECEIVABLE ACCRUALS	Inclusion of back office service provider	The Finance Department is responsible for the timely preparation and distribution of invoices to optimize cash flow and customer payments. The Finance Department with the support of EdTec will also maintain accurate records over Accounts Receivables and Accruals and abide by proper internal controls.
REV103	PROJECT(Grant/Contract) REVENUE: PROGRESS BILLING	Inclusion of back-office provider and revision of responsibilities.	The Finance Department is responsible for the confirmation of all final program amounts and is responsible for knowing the correct procedures to be followed for each contract. Chief Financial Officer reviews the billings of the contract and ensures that all available opportunities to recover reimbursable costs have been considered. 2.1 The Finance Department with the support of EdTec is responsible for the final reconciliation of all grant and other contracts at the end of the year by reviewing final billings prepared by the Financial Analyst and/or the School Principal.
REV105	REVENUE RECOGNITION - GRANTS AND CONTRIBUTIONS	Change in responsibilities	Chief Financial Officer and the Finance Department direct the separate accounting for grant revenue and contributions received. EdTec ensures that grant and contribution revenues are separately tracked within the accounting system.
REV106	GIFTS-IN-KIND	Inclusion of back-office service provider process	The Financial Analysts are responsible for assessing value of gift and informing EdTec so that it can be recorded into the accounting system. 1.5 The Financial Analyst will then provide necessary information to EdTec so that it can be assigned as an asset or income to the appropriate school or to the central office.
REV107	RESTRICTED FUNDS	Change in responsibilities	EdTec is responsible for recording restricted donations and releases from restrictions properly in the accounting system. EdTec is also responsible for periodic reconciliation of restricted asset totals and monitoring restrictions to determine whether they have been met. 1.1 At the time revenue is earned by the Organization, the Financial Analysts with the support of EdTec will review any related documentation associated with the revenue to determine whether there are any restrictions on the money. EdTec will record in a separate class in the accounting system to keep separate from unrestricted funds.

SOP # CSH101 Revision: 1

Prepared by: Central Office

Effective Date: 2/14/13 11/12/15

Approved by: BOD

Title: CSH101 CASH BOXES

Policy: Proper internal control should be maintained over funds received by cashiers or sales clerks of any type, even at fundraising events at all times.

Purpose: To identify the practices for cash box control, including cash receipts, special tender items, cash payouts and reconciliation with deposits.

Scope: All personnel that deal with the cash transactions.

Responsibilities:

Principal is responsible for safeguarding / verifying and controlling all cash assets at each school.

School Office Manager is responsible for ensuring the completeness and accuracy of all opening, closing and intermediate transactions.

School Office Manager is responsible for overseeing all event transactions.

Procedure:

1.0 CASH BOX/SAFE

- 1.1 Each fundraiser or individual collecting cash should collect cash for events and safeguard properly. Once all cash has been collected, this individual should submit the cash received to the School Office Manager as soon as possible for placement in the cash box. It is important to ensure that only one person has responsibility for collecting cash as to limit any opportunities for misappropriation.
- 1.2 All cash collected must be collected by the School Office Manager, counted together with the School Principal and one other person, and signed off by all three individuals that the cash count is accurate. The funds will then be safely secured until deposited by a designee of the School Office Manager.
- 1.3 If the cash balance at the end of day exceeds \$1,000, a bank deposit will need to be made the same day. Otherwise, all bank deposits will need to be made by the last business day of the week. At the end of the week there should be no more than \$50 left in the cash box for the following week.
- 1.4 Bank deposit documentation needs to be emailed to EdTec, in PDF format, for entry into the general ledger on a weekly basis.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, Chief Financial Officer

SOP # CSH103 Revision: 1
Office
Effective Date: 11/12/15

Prepared by: Central
Approved by: BOD

Title: CSH103 PROBLEM CHECKS

Problem: To save time in returning and following-up on unsigned, checks marked "payment in full", or returned by the bank. These checks should be processed as follows and deposited.

Purpose: To describe how these types of checks should be handled before depositing.

Scope: This procedure applies to all checks received by the Organization.

Responsibilities:

EdTec is responsible for processing all check transactions for each school.

Definitions: NSF. Non-Sufficient Funds or NSF checks are those that are returned from the bank because the balance in the checking account was not high enough to cover the check. The check is then stamped NSF or "insufficient funds", "uncollected funds", or maybe "account closed".

Procedure:

1.0 UNSIGNED CHECKS

1.1 The word "over" should be typed or written on the line where the signature would normally appear. On the back, type "Lack of Signature Guaranteed" and then add the Organization name, manager's name, title and signature.

Note: This indicates to the bank that the Organization will take back the check as a charge against its account in the event it isn't honored. In the event the check is not honored, the Office Manager should immediately follow-up with the issuer.

1.2 Continue processing the check.

2.0 PARTIAL PAYMENT CHECKS MARKED "PAYMENT IN FULL"

2.1 If there's no dispute as to the amount, a check tendered for less than the amount due and marked "payment in full" (or similar wording) can be cashed without jeopardizing the right to recover the balance. However, if there's a bona fide dispute as to the amount owing, the Organization runs the risk that payment will be deemed to have settled the disputed claim for the lesser amount.

2.2 To overcome any potential pitfall, the check should be endorsed with the following statement "Check is accepted without prejudice and with full reservation of all rights under section 1-207 of the UNIFORM COMMERCIAL CODE (see Reference A).

- 2.3 Continue processing the check as per procedure CSH102 CASH RECEIPTS AND DEPOSITS.
- 2.4 The Office Manager should then work with the customer to resolve collection of the remaining balance due.

3.0 RETURNED CHECKS

- 3.1 A returned check for less than \$100 or stamped "uncollected funds," should be re-deposited the following day, if the check is not already stamped, "Do Not Re-Deposit".
- 3.2 For returned checks in amounts greater than \$100, the bank that the check is drawn against should be telephoned to determine if the check amount will clear the customer's account. If sufficient funds exist the check should be re-deposited. If the check is very large, consider taking the check directly to the issuing bank for recovery.

Note: The customer's account number should be the second number series located at the bottom center of the check.

4.0 REDEPOSITED CHECKS

- 4.1 In the event a re-deposited check is returned or if sufficient funds do not exist to cover the check, the Office Manager should contact the issuer by phone to report the problem and discuss how the matter will be resolved. Then issue a formal notice CSH103 Ex1 BAD CHECK NOTICE via certified mail with a return receipt requested to ensure the customer understands the seriousness of the issue.
- 4.2 Whenever a check is re-deposited more than once a handling fee should be considered.

References:

A. UNIFORM COMMERCIAL CODE (UCC)

The "Uniform Commercial Code" or UCC began as a model for each state legislature to modify and adopt as law in that state. Therefore, the UCC is not the same in every state. Each state's court system can interpret the UCC differently thereby creating different case law in that state and producing different results. Business people cannot assume that the law will be exactly the same in each state. For more information see the Secretary of State for each State in question.

B. BAD CHECK LAW

Bad Checks are considered part of the UCC and therefore are a matter of state law enforcement. Section 3-104(2)(b) of the UCC, defines a check as "a draft drawn on a bank and payable on demand." Each state has a different "Bad Check Law" see UCC above.

Postdated check: since it is not payable on demand, most states believe that the giving of a post-dated check does not constitute a present fraud nor is it within the scope of the bad check laws.

Payments for COD or pre-existing debt: In most cases, NSF checks are not considered under the bad check law if they are used to pay a note payment or to pay an invoice that is on account. However, if the debtor provides a creditor with a NSF check for a COD order, then that act does fall within the bad check laws.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office provider process	Oswaldo Diaz, Chief Financial Officer

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CSH103 Ex1 BAD CHECK NOTICE

Date:

CUSTOMER NAME
ADDRESS
CITY, STATE, ZIP

Dear Sir:

Payment on your Check No. _____ in the amount of \$ _____, presented to us on, {DAY MONTH YEAR} , has been returned by your bank and marked insufficient funds. We have re-deposited your check and attempted to collect on this check twice already.

We have verified with your bank that insufficient funds remain to clear this check. Therefore, we request that you replace this check with a certified check immediately.

Unless we receive the certified funds for the amount listed above within 15 days, we shall immediately begin appropriate legal action to protect our interest. Upon receipt of replacement funds we shall return the dishonored check.

Sincerely,

Office Manager
MAGNOLIA EDUCATION AND RESEARCH FOUNDATION

Certified Mail, Return Receipt Requested.

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SOP # CSH108 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH108 INTER-ACCOUNT BANK TRANSFERS

Policy: To ensure the accuracy of the Organization's bank account records by proving documentation of bank transfers.

Purpose: To outline the practices for preparation of an inter-account bank transfer

Scope: This applies to all bank accounts maintained by the Organization.

Responsibilities:

Chief Executive Officer is responsible for review and approval of all inter-account bank transfers

Chief Financial Officer is responsible for performing all inter-account bank transfers.

Background: Errors or omissions can be made to the Organization's bank account records due to the many cash transactions that occur. Therefore, it is necessary to authorize all inter-account bank transfers.

Procedure:

1.0 INTER-ACCOUNT BANK TRANSFER

1.1 EdTec monitors the balances in the bank accounts to determine when there is a shortage or excess in the checking account. EdTec recommends to the Chief Financial Officer when a transfer should be made to maximize the potential for earning interest or when funds are needed for processing payroll or other transfer needed. The Chief Financial Officer will determine when to make a transfer and in what amount. After the transfer has been initiated by the Chief Financial Officer, the Chief Executive Officer must log into the online banking system in order to complete the bank transfer process. A copy of the transfer is given to EdTec.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, Chief Financial Officer

SOP # CSH109 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH109 JOURNAL ENTRIES AND RECLASSIFICATION ENTRIES

Policy: To ensure the accuracy of the Organization's books and records by proving documentation of journal entries and reclassification entries. All journal entries shall be authorized in writing by the Finance Manager initialing or signing the entries.

Purpose: To outline the practices for preparation of journal entries and reclassification entries.

Scope: This applies to all accounting transactions performed by the Organization.

Responsibilities:

The Chief Financial Officer is responsible for review and approval of all journal entries and reclassification entries.

EdTec is responsible for performing all journal entries and reclassification entries

Background: Journal entries can directly affect the presentation of financial statements. Therefore, it is necessary to authorize all journal and reclassification entries.

Procedure:

1.0 JOURNAL ENTRIES AND RECLASSIFICATION ENTRIES

1.1 The Chief Financial Officer the Financial Analysts and EdTec monitor the balances in the accounting records of the Organization.

All general ledger entries including audit adjusting entries, reclassification entries, or other such journal entries shall be supported by journal vouchers or other documentation, which shall include a reasonable explanation of each entry. Examples of such journal entries include:

1. Recording of noncash transactions
2. Corrections of posting errors
3. Non-recurring accruals of income and expenses

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Depreciation of fixed assets
2. Amortization of prepaid expenses

- 3. Accruals of recurring expenses
- 4. Amortization of deferred revenue

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal voucher.

It is the policy of MERF that all journal entries not originating from subsidiary ledgers shall be authorized in writing by the Chief Financial Officer initialing or signing the entries.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Revision of responsibilities	Oswaldo Diaz, Chief Financial Officer

SOP # CSH110 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH110 PETTY CASH PURCHASES

Policy: The Organization does not permit the use of petty cash.

Scope: This applies to all petty cash transactions.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Removal of petty cash use	Oswaldo Diaz, Chief Financial Officer

SOP # CSH112 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

**Title: CSH112 INTERCOMPANY RECEIVABLES AND PAYABLES
(DUE TO/DUE FROM)**

Policy: To ensure that intercompany transactions between individual charter schools and the central office are processed correctly

Purpose: To outline the practices for intercompany transactions between individual charter schools and the central office

Scope: This applies to all charter schools operated by the Organization.

Responsibilities:

Chief Financial Officer is responsible for performing the intercompany transactions with approval from the Board of Directors.

The Finance Department is responsible for alerting EdTec regarding intercompany transactions. EdTec is responsible for recording it into the accounting system, and ensuring accuracy of fiscal year-end balances.

Background: Charter schools are highly dependent on government funding to operate. Government cuts and funding deferrals can result in cash shortages for schools. Therefore the need arises to allocate resources from other schools to cover any shortfall. It is necessary to correctly record transactions between the charter schools and the central office in order to properly determine each school's receivable/liability.

Procedure:

1.0 INTERCOMPANY TRANSACTIONS

1.1 The Chief Financial Officer, with the support of the Finance Department and EdTec, monitors cash balances daily for the charter schools. When a charter school realizes a need for funds, the Chief Financial Officer will assess resource levels for the other schools as well as the central office. If the central office does not have sufficient funds to advance to the charter school requestor, at the discretion of the Chief Financial Officer, the Chief Financial Officer may transfer funds from a charter school with surplus funds into the central office. The Chief Financial Officer may then transfer funds to the charter school requestor from the central office. For policy regarding inter-account bank transfers, refer to **CSH108 INTER-ACCOUNT BANK TRANSFERS**.

1.2 At the end of the fiscal year, each school's receivable or payable account will be reconciled in accordance with **G&A105 PERIOD-END REVIEW & CLOSING**. Once balances are reconciled, an agreement is prepared at the end of the fiscal year between each school and the central office to document the amount owed and repayment terms.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Revision of responsibilities	Oswaldo Diaz, CFO

SOP # CSH113 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH113 FINANCIAL RESERVES

Policy: To ensure each charter school maintains a fund reserve in order to protect itself from unforeseen revenue shortfalls or unexpected expenditures.

Purpose: To describe responsibilities and monitoring procedures over each charter school's fund reserve

Scope: This applies to all charter schools operated by the Organization.

Responsibilities:

EdTec is responsible for day to day monitoring of charter school cash accounts and ensuring their accuracy.

Chief Financial Officer is responsible for oversight over charter school cash accounts as to ensure that required fund reserve amounts are met.

Background: California regulations state that the following reserve amounts must be maintained:

- Greater of 5% of prior year operational expenditures or \$55,000 for districts with 0-300 ADA
- Greater of 4% of prior year operational expenditures or \$55,000 for districts with 301-1,000 ADA

Procedure:

1.0 FUND RESERVE BALANCES

1.1 EdTec will monitor the cash balance for each charter school to ensure its accuracy and to be able to project future amounts. This will be accomplished through timely bank reconciliations and regular budget vs. actual comparisons. This process is critical to quickly detect any potential cash shortages so expenditures can be modified or more resources can be requested.

1.2 If the required fund reserve amount for a charter school cannot be met, the Chief Financial Officer with the support of EdTec will need to determine where cash can be derived from in order to restore the fund balance. This can come from central office funds or from another charter school with surplus funds. See CSH112 INTERCOMPANY RECEIVABLES AND PAYABLES (DUE TO/DUE FROM) for this procedure.

Revision History:

Revision n	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service processes	Oswaldo Diaz, CFO

SOP # G&A103 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A103 TRAVEL AND ENTERTAINMENT

Policy: All reservations required for business travel and entertainment will be made through the Purchase Manager or designated staff. Expenses are to be within established Organization guidelines and will be reimbursed with proper documentation. Employees are expected to spend the Organization's money as carefully and judiciously as they would their own.

The Organization recognizes that employees who travel far from home to represent the Organization's business interests must forego their living accommodations and may forfeit personal time. Accordingly, the Organization will make efforts to provide comfortable and secure accommodations for lodging, meals and travel for employees. However, these items are not intended to be perquisites and the Organization reserves the right to deny reimbursement of expenses that are considered lavish or extravagant.

Purpose: To provide guidelines for travel and entertainment expenses as they were actually spent, account for all advances promptly and accurately and to communicate the procedures for reimbursement.

Scope: This procedure applies to all departments and individuals who travel or entertain for the Organization.

Responsibilities:

Responsible Party: The individual employee and/or the Purchase Manager

- When the Purchase Manager does not make travel arrangements, each employee is responsible for making arrangements needed for business travel.
- The Purchase Manager may make travel arrangements when requested, provided that arrangements are made at least 15 days in advance.

The Finance Department will receive and review the expense report documentation and send to EdTec to process necessary employee reimbursement. (See PUR106, Reimbursements, for more detailed information.)

Procedure:

1.0 TRAVEL ARRANGEMENTS

1.1 All arrangements required for business travel are to be made individually or through the Purchase Manager. When possible, the Purchase Manager can solicit better corporate discounts and rates for hotels, airlines, car rental agencies and travel agencies. Employees benefit because they do not have to spend their own time comparing rates and making their own arrangements. If making your own arrangements, the employee must find the best possible travel pricing.

1.2 For maximum savings on airfares, this form should always be completed at least 15 days in advance unless an emergency trip is required.

1.3 It is preferable that all employees travel during non-working hours to maximize efficiency. The Purchase Manager will make arrangements for the trip as required and will return a travel itinerary and any tickets or reservation forms to the employee.

1.4 **Cash Advances** - To help ensure accurate and timely expense report preparation and reduce the additional paperwork required to process and track Cash Advances, the Organization generally **discourages** cash advances unless special circumstances apply. Employees are encouraged to use credit cards with a grace period to provide float time between incurring the expense and receiving reimbursement from the Organization.

If an employee requires a cash advance, a formal request must be made through CoolSIS as a check request. The advance request will then be forwarded to accounting for processing upon approval. Travel advance amounts are approved on an as needed basis.

When a cash advance is received, the employee will reduce their expense reimbursement by the amount of the cash advance. In the case where the cash advance exceeds the expenses for the report submitted, the remaining cash must be turned into the accounting department with the expense report. Amounts owed the Organization cannot be carried forward to future expense reports. Any advance outstanding will be deducted from the employee's paycheck.

1.5 **Direct Billings** - Direct billings to the Organization from motels, restaurants, etc. are not permitted unless previously authorized.

2.0 EXPENSE GUIDELINES

2.1 Air Travel - Airline reservations are based on the following criteria:

- Expediency: Getting the employee to their destination in an expedient way. (Direct flights when possible or connecting flights if necessary for faster flight schedules).
- Cost: Employees will fly coach class unless extenuating circumstances apply.
- Air Carrier: An employee's preferred airline can be utilized as long as expediency and cost factors are equal. In most cases, airfare will be directly billed to the Organization's credit card account.

On occasion, employees may have no alternative but to book their own flight. If this is the case, employees must use regularly scheduled airlines and obtain the lowest (discount) fare available. This may mean that employees will fly at times that are not always the most convenient for them.

2.2 Lodging - Lodging arrangements are based on value, convenience for the traveler and according to what is usual and customary Organization guide lines.

Whenever multiple employees are traveling to the same location, employees will be required to share accommodations if possible (i.e. male/male or female/female). Lodging accommodations will then be made for double rooms accordingly. If an employee is accompanied by a non-employee such as family or a friend, and therefore requires

separate accommodations, the employee will be responsible for payment of any excess lodging accommodations.

- 2.3 Meals - Employees on Organization business where an overnight stay is not required will be reimbursed for the actual cost of their lunch and dinner meals not to exceed \$25 and receipts are required. Any amounts spent in excess of \$25 will not be reimbursed. The cost of meals should be reasonably priced based on the locality.

Employees who are required to stay overnight for the Organization's business are allowed a per-diem rate of \$35 per day and receipts are not required.

Officers may include reimbursement of actual guest meals for the business of the Organization at their discretion. When officers are traveling under per-diem meal arrangements, and guest meals are paid for, that day's per-diem amount must be adjusted downward by \$15 and cannot be claimed.

See form PUR104 Accounts Payable and Cash Disbursements and PUR 106 Reimbursements for additional information regarding Meals.

- 2.4 Car Rentals – When possible, advance arrangements should be made by the Purchase Manager if a car is required at the destination, otherwise the employee is required to make their own car rental arrangements. Vehicle selection will be based upon the most cost-effective class that satisfies requirements for the employee(s) and any demonstration equipment.

Supplemental auto insurance coverage offered by car rental agencies must be purchased and will be reimbursed.

- 2.5 Personal Vehicles - An employee who uses their own automobile for business will be reimbursed at 36 cents a mile. The employee must provide on the expense report, documentation including dates, miles traveled and purpose of each trip.

The Organization assumes no responsibility for personal automobiles used for business. Further, any parking or speeding violation is the sole responsibility of the employee and each employee must have valid minimum automobile liability insurance as required by state law.

- 2.6 Telephone - Telephone charges from the hotel are not allowed unless it is an emergency.

- 2.7 Entertainment - Entertainment expenses are not allowed.

- 2.8 Miscellaneous Expenses - Any additional business expenses that are not categorized above should be listed under miscellaneous expenses and documented with all pertinent information to substantiate the expense.

- 2.9 Non-Reimbursable Expenses - Some expenses are not considered valid business expenses by the Organization, yet may be incurred for the convenience of the traveling individual. Since these are not expenses for the business then they are not reimbursable. (The following can be used as a guide of expenses, which are not reimbursable)

Examples include:

- Airline or travel insurance

- Airline or travel lounge clubs
- Shoe shine or Dry-cleaning (except for extended travel beyond 5 days)
- Movies or personal entertainment
- Books, magazines or newspapers
- Theft or loss of personal property
- Doctor bills, prescriptions, or other medical services
- Parking tickets, traffic tickets or Car towing if illegally parked
- Health club memberships
- Baby sitter or Pet care fees
- Barbers and Hairdressers

3.0 EXPENSE REPORT PREPARATION AND REIMBURSEMENT

3.1 All business reimbursement expenditures incurred by employees of the Organization are reimbursed through CoolSIS. Reimbursement receipts must be submitted monthly and any receipt that is older than 60 days will not be reimbursed at the discretion of the Chief Financial Officer.

Expense report forms must be filled out completely. Required original receipts for items charged must accompany all reimbursement documentation as well as uploaded into CoolSIS. Any questions regarding completion of the report should be directed to the employee's supervisor or the accounting department.

Upon completion, the expense report along with all attachments should be submitted to the employee's appropriate supervisor in CoolSIS for approval. After approval, the expense report is submitted to the accounting department for processing and reimbursement. In order to expedite reimbursement, the employee should ensure that the report is completed properly, required documentation is attached, proper authorization is obtained, and any unusual items properly explained and documented.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office provider process	Oswaldo Diaz, CFO

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SOP # G&A104 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD/

Title: G&A104 MANAGEMENT REPORTS

Policy: EdTec will prepare summary reports of vital operating statistics for the Organization, including revenues, current debt, operating cash, accounts receivable and projected short-term cash flows. These reports are to be prepared and are to supplement detailed monthly and quarterly financial reports and are to be used for timely "hands-on" management.

Purpose: To provide the format and content requirements for preparation of the Financial Reports.

Scope: The procedure applies to EdTec and the Finance personnel required for preparation of these reports.

Responsibilities:

EdTec will be responsible for assuring effective and informative reporting for the Organization.

Finance Manager is responsible for preparing and maintaining a summary of all reports.

Procedure:

1.0 PREPARATION GUIDELINES

1.1 The logistics of preparing financial summaries will vary, depending on the accounting system used and the needs of the Organization. Most computerized systems offer an "executive summary" screen of critical financial information. The objective is to provide a quick recap of the financial status of the Organization that should lead to plans for corrective actions or adjustments.

Bi-monthly reports should be considered "exception reports" that provide management the necessary information to understand whether the Organization is progressing as planned.

The timing of reports is critical to the effective operation of the Organization. Reports should be prepared and distributed in a timely fashion following the end of the reporting period.

To improve readability, simplify preparation, and allow users to focus on the materiality of the data, all reporting should be rounded and/or plugged to the nearest \$1 increments when possible. Note: larger companies may wish to focus on \$100 or more increments.

1.2 If details are not available then use control totals and note on the report any estimates. Follow up with actual results as soon as practical. The preparer should keep in mind that the objective of the report is to provide a quick recap of the financial status of the Organization and not a time-consuming detailed

financial analysis. Leave exhausting details in the books for later analysis as required.

- 1.3 Make statements easy to read. Use the following style guidelines to improve readability:
 - Use 8-1/2 x 11 paper
 - Use a lot of “white space” on the page
 - Limit columns of figures to three columns
 - Omit cents and use thousands of dollars as appropriate. Indicate on the report the units used in a legend.
 - Indicate only significant expenses and group remaining items
 - The preparer should date (month/day/year) and initial all reports.
- 1.4 EdTec will file a copy of repetitive reports for later retrieval, auditing or trend analysis.
- 1.5 The Finance Manager will prepare and maintain a summary of all reporting. The summary will include the following categories:
 - Department or Functional Area
 - Name of Report
 - Purpose of the Report
 - Frequency of Preparation
 - Distribution of Copies
- 1.6 Updates of the summary will be issued to all Organization officers and department managers. Managers should use the summary to determine what information is being compiled and the format and distribution of reporting. Many times duplicate or redundant information gathering, reporting and filing can be avoided by merely changing the format or distribution of existing reports.

2.0 FINANCIAL REPORTS

- 2.1 The Chief Financial Officer and Finance Manager should review accounting program financial reports on a regular basis.

3.0 CASH FLOW REPORT

- 3.1 The Cash Flow Report represents a summary of the cash flowing through the Organization in the near term and identifies any potential shortfall that might occur in the near future before it occurs. The Cash Flow Report should be reviewed quarterly by the Chief Financial Officer. This report supplements the detailed monthly and quarterly financial statement reports and provides a quick look at the cash performance of the Organization.

- 3.2 The Cash Flow Report should include projected operating cash balances for each week with estimated cash receipts by major classifications and projected disbursements by major account classifications.
- 3.3 EdTec will notify the Chief Financial Officer of any shortfall so that the Organization may determine alternative courses of action to rectify the situation.

4.0 BUDGET VS. ACTUAL REPORT

- 4.1 The Budget vs. Actual Report represents a comparison of planned operating expenses to the actual expenses incurred for the period. The objective is to highlight results against plan, percentages and variances and thus provide a basis for management decisions. The Budget vs. Actual Report is prepared and maintained by EdTec on a monthly basis.
- 4.2 The Budget vs. actual report should be divided into three main components. 1) Current period budget, actual and variance totals, 2) a description of the major income and expense account classifications similar to the financial statements, and 3) the Current year-to-date budget, actual and variance totals. The percent column should be used to list each line as a percentage of total revenues. Alternatively, it can also represent the percentage variance or change from last period.

5.0 FINANCIAL STATEMENTS

- 5.1 The Chief Financial Officer, Chief Executive Officer, and the Board of Directors should review the Financial Statements bi-monthly for each board meeting. This report provides one indication of the performance of the Organization.
- 5.2 The Financial Statements typically are comprised of three main parts: The Statement of Financial Position, Statement of Activities, and the Statement of Cash Flows (Statement of Cash Flows quarterly).

The Statement of Financial Position lists all of the Organization's assets (cash, receivables, deposits, inventory, equipment, intellectual property, etc.), liabilities (debt, lease obligations, etc) and net assets. It identifies the assets (which are "the business") and the financiers, or debt and equity holders and the relationship between the two.

The Statement of Activities represents the Organization's operational sources of cash - revenue - or uses - business expenses and is typically divided into operating periods that represent months, quarters or years of operations. It identifies the profitability of the Organization as a function of the accounting decisions.

The Statement of Cash Flows is the difference between the Statement of Financial Position sources and uses of cash and the Statement of Activities sources and uses of cash. This difference assists in identifying the health of the Organization's operations. It identifies whether the Organization is producing cash or consuming cash and at what rate and from what sources.

- 5.3 The Financial Statements should be produced after the close of the Organization's period (see procedure G&A105 PERIOD-END REVIEW & CLOSING). The final Financial Statements form the basis for the Organization's formal presentations to the Board of Directors, or other stakeholders such as banks, outside agencies, or creditors in accordance with procedure G&A109 CONFIDENTIAL INFORMATION RELEASE.

References:**FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)**

Since 1973, the Financial Accounting Standards Board (FASB www.fasb.org) has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission (Financial Reporting Release No. 1, Section 101) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979). FASB pronouncements are the primary sources of GAAP.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

A collection of accounting principles. Typically includes the most recent developments of all generally accepted accounting principles (GAAP) as derived or collected from various technical pronouncements. Sources include FASB statements, interpretations, technical bulletins and concepts; American Institute of CPAs (AICPA); Accounting Principles Board opinions, accounting research bulletins, and position statements; and Securities and Exchange (SEC) financial reporting releases.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Revision of responsibilities	Oswaldo Diaz, CFO

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SOP # G&A105 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A105 PERIOD-END REVIEW & CLOSING

Policy: An orderly, timely and comprehensive review of all general ledger accounts should be performed or directed by the Chief Financial Officer to ensure an accurate representation of the company's financial statements. These practices are aimed at proving that the financial accounts are accurate, and if not, are properly adjusted to make them accurate, prior to closing.

Purpose: To provide a general overview of the process to be completed for reviewing the accounting records at year-end or any particular month-end prior to closing.

Scope: These practices apply to all accounts. Typically, all financial accounts are reviewed and then closed out as of the company's year-end. Consequently, the procedures that follow are discussed in reference to year-end review. However, a sub-set of these procedures is also applicable to month-end reviews. Month-end procedures are identified near the end of this module.

Responsibilities:

EdTec is responsible for creating and reviewing all period-end activities to ensure the period-end financial statements accurately reflect the results of the Organization's activities. All final closing adjustments should be approved by the Chief Financial Officer.

The Financial Analysts are responsible for helping gather all documentation required to complete the period-end closing.

Definition: "Review" refers to the procedures involved in examining the financial statement balances at any given period to ascertain their accuracy.

"Closing" is the process of advancing from one month or period to the next or from one year to the next. In most computerized accounting systems the periods are closed by executing a menu command. Monthly closings usually involve nothing more than entering the next month and responding to the program's suggestion to print various month-end reports or inserting a password such that transactions cannot be entered back in time from a specific point. Even after moving to the next month, many accounting systems allow the user to return to previous months to enter or edit transactions.

The yearly closing is more rigorous since it involves re-setting all Statement of Activities accounts to zero. Once a year is "closed", some accounting systems do not allow the user to go back or open a closed period to make changes. So be careful, once the period is closed, it is

official and any adjustments that are required will need to be made in the current or next open period. The prior year should be password protected once it is closed to prohibit transactions being posted in the prior year.

Background: The financial statement is the most important management tool for the Chief Financial Officer. It is comprised of the statement of financial position and the statement of activities.

The statement of financial position accounts are measured at a moment in time, like a snapshot. They reflect a total of items at any particular time: a total of cash, accounts receivable, inventory, fixed assets, accounts payable, debts, and net assets retained in the company.

The statement of activities accounts are measured over a period of time, like a movie. They represent the sum total of transactions: sales, purchases, payroll, etc. The difference in sales less all related expenses equals the net income or loss for the period of time being measured.

Accounting is a double-entry system. Thus, each business transaction has two equal sides. For example, paying an expense decreases cash on the statement of financial position and increases an expense on the statement of activities. Getting paid for a service, fundraising, or grant revenue increases cash on the statement of financial position and increases revenue on the statement of activities. Because of this interdependency, the accuracy of the statement of activities is dependent upon the accuracy of the statement of financial position.

It is easier to prove the accuracy of the statement of financial position. Adding up how much each customer owes the store or reconciling cash to the bank statement is a much simpler process than attempting to add up each individual sales transaction on the statement of activities. For this reason, more time is actually spent on proving the accuracy of the statement of financial position.

Once the statement of financial position is proven, the statement of activities, in total, must be right! The only errors would be misclassifications, (i.e.: the phone bill could be incorrectly posted to the rent expense account). The accounts of the statement of activities are generally reviewed for reasonableness by comparing amounts to prior periods and analyzing ratios. However, the accounts of the statement of financial position are compared to actual totals of items counted (cash, receivables, inventory, payables, fixed assets, etc.).

The Chief Financial Officer or Finance Manager is encouraged to understand these concepts and to take the initiative to keep the financial statements as accurate as possible, regardless of how much an outside accounting service is utilized.

Procedure:

1.0 CLOSINGS PREPARATIONS

- 1.1 The steps to the actual period-end are not all performed on the exact end of the period. Some accounts cannot be "settled", proved, or reconciled until all third party information is received.

Bank statements from banks usually don't arrive until a couple weeks after a month end. And, many final payroll tax payments and yearly reconciliation forms aren't due until the end of the following month. Also needed are final bills from vendors, credit card statements, month end statements from vendors and year-end loan statements from banks and other financial institutions. All of this information is needed before a business can truly "close its books".

Fortunately, most accounting systems allow a business to continue posting transactions into subsequent months of the new year, without actually "closing" the previous year-end. The Finance Manager should be familiar with the specific software procedures for keeping the prior year open until all final closing adjustments have been made. It's not unusual for businesses to continue processing transactions for almost the entire next year before closing the prior year.

- 1.2 Compile all period-end documents in preparation for closing the accounting period. These documents include:

- Bank statements to all accounts
- Final payroll and tax amounts
- All final bills and month-end statements from vendors
- All credit card statements
- All year-end loan or debt statements
- All asset acquisition and disposition transactions
- All program costs

- 1.3 Fewer procedures are performed at month-end dates. At a minimum the following procedures would be expected for monthly closings:

- Reconcile all bank accounts
- Print and compare the aged receivables and payables to the general ledger. Make appropriate adjustments to balance the accounts.
- Review all Statement of Financial Position and Statement of Activities accounts for completeness
- Retain all above reports in a monthly summary file.

2.0 STATEMENT OF FINANCIAL POSITION: ASSETS

- 2.1 Prepare a year-end closing file to store all reconciliation documents and printed reports as described below.

- 2.2 **Cash accounts** - prepare the bank reconciliations for year-end balances per the bank statement to the balance per books for each account. The year-end reconciliation is especially important for preparing the final year-end financial statements to ensure that it is completely accurate.
- Show origination dates and description of each reconciling item. Prepare the necessary journal entries to adjust to the reconciliations. Prepare a summary of all petty cash and change drawer funds. Totals must agree with the general ledger. File all reconciliation reports in the year-end closing file.
- 2.3 **Accounts Receivable** – Print a detailed aged accounts receivable report and then reconciles it to the General Ledger. This can be prepared as soon as all accounts receivable are calculated as of year-end. Calculate possible allowances for uncollectible accounts. Adjust prior allowances to calculated amount. Write off any un-locatable differences. Retain a complete copy of the detailed accounts receivable, along with any reconciling adjustments in the year-end closing file.
- 2.4 **Inventory** – Supplies inventory may be small but should be evaluated periodically for cost increases.
- 2.5 **Capital Assets** - Update the detailed schedule of fixed assets with any additions and deletions and reconcile to the general ledger balances.
- 2.6 **Other Assets** - Other assets include utility or real estate deposits, prepaid insurance, advances to employees, and intangibles like store pre-opening costs. These should all be identified and documented. For example, a copy of the initial deposit with the utility company, or a list of the facility pre-opening costs with a schedule showing how much of those costs are to be amortized each year. File copies of these documents in the year-end closing file.

3.0 STATEMENT OF FINANCIAL POSITION: LIABILITIES AND NET ASSETS

- 3.1 Liabilities are shown as the amount to be paid in the subsequent period. If in doubt, record the liability.
- 3.2 **Accounts Payable** - Print a detailed aged accounts payable report and reconcile it to the general ledger. This is generally completed 2 to 4 weeks after the year-end to ensure that all vendor invoices relating to services and merchandise purchased have been received and entered.
- Compare all month-end vendor statements to balances per accounts payable and investigate any differences. Consider making adjustments for any significant unrecorded liabilities such as work started prior to year-end, but not yet billed by the supplier. Retain a complete copy of the accounts payable detail, along with any reconciling adjustments, in the year-end closing file.
- 3.3 **Accrued Expenses** - Review accruals for sales tax, payroll, payroll tax, payroll deductions payable, interest expense on short-term borrowings and long-term debt.
- 3.4 **Loan Debt** - Verify recorded accuracy of debt by ensuring the general ledger balances agree to year-end statements from lending institutions. Save all year-end statements in year-end closing file.
- 3.5 **Contingent Liabilities and Commitments** - Prepare a schedule of any outstanding litigation and possible losses. Prepare a schedule of all long-term rental agreements with amounts due by year for the next five years. Retain these schedules in the year-end closing file.
- 3.6 **Net Assets** - Record any changes in the Prior Period Adjustment category but ordinarily this account does not have any transactions directly posted to it.

4.0 STATEMENT OF ACTIVITIES: REVENUE & SUPPORT

- 4.1 **Revenue & Support** – Review all program billings, reimbursement billings, and any other donations.
- 4.2 Additionally, the Chief Financial Officer should periodically review revenue trends, cost associated with revenues, variable expenses and fixed expenses. Look for patterns, new trends, seasonal variances, or profitable emerging products that may indicate changes in customer or program behavior.
- 4.3 The Chief Financial Officer and/or Finance Manager should analytically review the revenue reports and explain all variances.

5.0 STATEMENT OF ACTIVITIES: EXPENSES

- 5.1 Each expense total should be compared to expense total from the year before (and budgets if applicable). Attempt to explain any unusual variances. Some expense items are directly related to asset or liability accounts and can be reconciled in conjunction with the related Statement of Financial Position account.

- 5.2 **Program Costs** - A detailed report should be produced of program costs and analyzed in relation to the associated revenues and to prior periods.
- 5.3 **Payroll** - At year-end, the various payroll expense accounts should agree to total gross payroll per payroll reports. Account for all deductions for W-3 reported to the Social Security Administration, 1099s for vendors, as well as FICA and other taxes reported accordingly.
- 5.4 **Bad Debt Expense** - Prepare a list of all accounts written off during the year. Note specifically any addition to the allowance for uncollectible accounts.
- 5.5 **Interest Expense** - Prepare a schedule of interest expense by source. Reconcile amounts to short-term borrowings and long-term debt.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

SOP # G&A107 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A107 TAXES AND INSURANCE

Policy: To ensure compliance with all Federal, state, local, and other regulatory taxation requirements

Purpose: To outline the general areas of taxation. To be used as a checklist or guide in complying with tax requirements related to each specific location and organizational structure.

Scope: This statement applies to the business activities of the company.

Responsibilities:

The Financial Analysts are responsible for determining all tax liabilities and fees, and the dates due

EdTec is responsible for ensuring the timely payment of all tax liabilities and fees..

Procedure:

1.0 ORGANIZATION FEES AND TAXES

1.1 Fees and taxes will vary depending on the legal structure of the business activity. The Organization is a Not-For-Profit organization; however, there may be from time to time revenue earned that is taxable as if the Organization were a For-Profit entity and those profits would be considered Unrelated Business Income and subject to tax.

1.2 The School Site Accountant should check with the secretary of state, registry of charitable trusts, the IRS, and any other agency that non-profit organizations may pay fees with in order to ensure all fees are paid in a timely manner. Failure to pay such fees can result in the loss of the company's legal status or structure.

2.0 UNRELATED BUSINESS INCOME TAX

2.1 Activities conducted not related to the exempt purpose of the Organization can be subject to unrelated business income tax.

3.0 PAYROLL FEES AND TAXES

3.1 The Federal and state governments charge an **unemployment tax**, based on a specified minimum amount of each worker's salary level. For most states, the rate can change from business to business depending on the Company's history of claims and the economic health of the state in which the Company is located.

3.2 **Worker's compensation insurance** may be imposed by a state like a tax. It can also vary based on the amount of payroll, past history of worker's compensation claims, and the type of work in which the business is engaged. This coverage is generally arranged through an insurance company.

- 3.3 At the Federal level, payroll is taxed at a uniform rate for **Social Security** and **Medicare**. These two taxes are evenly shared between the company and the employee up to certain levels of income. Additionally, personal income taxes, based on the employee's compensation, must be **withheld** from the employee's earnings and remitted to the government by the company, along with the company's and employee's share of **Social Security** and **Medicare** taxes.
- 3.4 In California, a portion of the employee's compensation is also **withheld** and remitted to the state by the Organization.
- 3.5 Other payroll withholdings, mandated by Federal or state requirements, may require wage garnishments to fulfill a bankruptcy edict or childcare payment requirement.
- 3.6 The Treasury Department and or the Internal Revenue Service (IRS) collects all monies due the Federal Government. Technically, withholding amounts deducted from a paycheck are considered the government's money and the business owner is temporarily holding the money, in deposit, until it can be transferred to the government. Any failure to pay in a timely fashion is considered a serious matter by the IRS and will not be ignored.
- The IRS will impose a penalty for failing to pay the required withholding amounts on time. In addition, interest will be charged until the amount is paid. Both interest and penalties imposed by the IRS can add up significantly. Therefore, the IRS is not a good source to "borrow" money from if cash is tight.
- Note: Money due the IRS is NOT dischargeable in bankruptcy.
- 3.7 Certain local municipalities charge an **Earnings tax** based on payroll, income, assets, stock options granted or any combination. Check with the city clerk for details.

4.0 EXCISE TAXES

- 4.1 There are many different federal government taxes or fees imposed on the commerce of different types of businesses. The following represents the most common.
- 4.2 Penalties and interest may result from any of the following acts.
- Failing to collect and pay over tax as the collecting agent.
 - Failing to keep adequate records.
 - Failing to file returns.
 - Failing to pay taxes.
 - Filing returns late.
 - Filing false or fraudulent returns.
 - Paying taxes late.
 - Failing to make deposits.

- Depositing taxes late.
- Making false statements relating to tax.
- Failing to register.

5.0 OTHER TAXES AND CREDITS

5.1 Many state, counties, and cities impose **real estate taxes**. The Organization should ensure that where possible the Organization has applied for exemption from property taxes as a non-profit organization.

5.3 **Sales Taxes** – at this time, the Organization does not sell any products and is not subject to sales tax.

6.0 TAX PAYMENTS

6.1 The School Site Accountant should create and maintain a detailed tax calendar as a guide, which provides a sample guide to some of the most common taxes. The guide should serve a reminder of tax due dates.

7.0 INSURANCE

7.1 Insurance needs for a business can be grouped in two broad categories, those that are directed at safeguarding assets and those that are furnished as employee benefits. Employee benefit insurance such as, health insurance, disability insurance and key man life insurance, should be considered in light of its importance in the entire employee compensation mix and in light of the personal needs of the company's owner(s).

7.2 Insurance used for safeguarding company's assets includes: property, casualty, key-man and professional liability insurance, as well as auto insurance, errors and omissions, directors' liability or business interruption insurance. The levels and terms of these policies should be determined based upon the value of the assets at risk and creditor or state and local requirements.

7.3 Business with a lot of employees should consider employment practices liability insurance covers businesses against some types of employee lawsuits including:

- Sexual harassment
- Discrimination
- Wrongful termination
- Breach of employment contract
- Negligent evaluation
- Failure to employ or promote
- Wrongful discipline
- Deprivation of career opportunity

- Wrongful infliction of emotional distress
- Mismanagement of employee benefit plans

7.4 Certificates of insurance may be required to be on file or on display depending on governmental requirements. It is important to consider that the insurance policy is a contract. Each year's policy should be saved in a permanent file. A product liability suit can go back many years, and if the potential claim is significant, the protection afforded by the prior year's insurance coverage will be improved if that year's policy has been saved.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

SOP # G&A115 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A115 ACCRUED LIABILITIES

Policy: The Organization will establish a list of commonly incurred expenses that may require accrual at the end of the fiscal year accounting period.

Purpose: The purpose of this policy is to properly recognize and accrue liabilities.

Scope: This applies to potential liabilities.

Responsibilities:

The Financial Analysts with the support of EdTec are responsible for ensuring that the accrued liabilities are properly accounted for.

Background: Accrued liabilities are liabilities that have been incurred such as vacation pay but have not been paid.

Procedure:

1.0 Accrued Liabilities

1.1 Some of the expenses that shall be accrued by MERF at the end of an accounting period are:

- Salaries and wages
- Payroll taxes
- Vacation pay/Compensated absences
- Rent
- Interest on notes payable
- Insurance premiums
- Audit fees
- Charter Management Organization fees

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider	Oswaldo Diaz, CFO

SOP # G&A116 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A116 NOTES PAYABLE

Policy: It is the policy of MERF to maintain a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents.

Purpose: The purpose of this policy is to properly track and recognize all notes payable and other similar obligations.

Scope: This applies to notes, loans, lines of credit, and obligations of the Organization.

Responsibilities:

EdTec is responsible for ensuring that all notes, loans, and other similar obligations are properly accounted for.

Background: Properly tracking and monitoring long term debt such as loans is important such that as payments become due, the Organization has sufficient cash flow to honor the obligation.

Procedure:

1.0 NOTES PAYABLE

1.1 Prepare a schedule that shall be based on the underlying loan documents and shall include all of the following information:

1. Name and address of lender
2. Date of agreement or renewal/extension
3. Total amount of debt or available credit
4. Amounts and dates borrowed
5. Description of collateral, if any
6. Interest rate
7. Repayment terms
8. Maturity date
9. Address to which payments should be sent
10. Contact person at lender
11. Loan covenants, if applicable

2.0 ACCOUNTING AND CLASSIFICATION

2.1 An amortization schedule shall be maintained for each note payable. Based upon the amortization schedule, the principal portion of payments due with the next

year shall be classified as a current liability in the statements of financial position of MERF. The principal portion of payments due beyond one year shall be classified as long-term/non-current liabilities in the statements of financial position.

- 2.2 Demand notes and any other notes without established repayment dates shall always be classified as current liabilities.

Unpaid interest expense shall be accrued as a liability at the end of each accounting period.

- 2.3 A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

3.0 NON-INTEREST-BEARING NOTES PAYABLE

- 3.1 As a charitable organization, MERF may from time to time receive notes payable that do not require the payment of interest, or that require the payment of a below-market rate of interest for the type of obligation involved. In such cases, it shall be the policy of MERF to record contribution income for any unpaid interest.

- 3.2 For demand loans, recording of interest expense and contribution income shall be performed at the end of each accounting period, based on the outstanding principal balance of the loan during that period, multiplied by the difference between a normal interest rate for that type of loan and the rate, if any, that is required to be paid by MERF.

- 3.3 For loans with fixed maturities or payment dates, the note payable shall be recorded at the present value of the future principal payments, using as a discount rate the difference between a normal interest rate for that type of loan and the rate, if any, which is required to be paid by MERF. The difference between the cash proceeds of the note and the present value shall be recorded as contribution income in the period the loan is made. Thereafter, interest expense shall be recorded in each accounting period using the effective interest method, with the corresponding credit entry increasing the note payable account to reflect the amount(s) that shall be repaid.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Changes in responsibilities	Oswaldo Diaz, CFO

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SOP # G&A117 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A117 FINANCIAL AND TAX REPORTING

Policy: The Organization will prepare annual and monthly financial statements as management considers necessary and prepare non-profit tax information and tax information returns within eight months of the fiscal year close.

Purpose: The purpose is to control and prepare consistent and accurate financial statements and tax returns that are relied upon by both internal and external parties.

Scope: This applies to financial statements and tax reporting documents.

Responsibilities:

Chief Financial Officer or his designee is responsible for preparing all tax documents and ensuring Organization financial statements are accurate.

EdTec is responsible for preparing all Organization financial statements.

Background: Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to MERF. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

Procedure:

1.0 STANDARD FINANCIAL STATEMENTS

1.1 Prepare the basic financial statements at year end and as considered necessary for reporting purposes. The basic financial statements of the Organization are maintained and prepared by MERF on an Organization wide basis and shall include:

1. **Statements of Financial Position** - reflects assets, liabilities and net assets of MERF and classifies assets and liabilities as current or non-current/long-term.
2. **Statements of Activities** - presents support, revenues, expenses, and other changes in net assets of MERF, by category of net asset (unrestricted, temporarily restricted and permanently restricted)

2.0 FREQUENCY OF PREPARATION

- 2.1 The objective of the EdTec is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:
- 2.2 A standard set of financial statements described in the preceding section shall be produced on a bi-monthly basis for presentation at the Board of Directors meeting. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:
1. Individual statements of activities on a departmental and functional basis (and/or program/grant basis)
 2. Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts

The bi-monthly set of financial statements shall be prepared on the cash basis of accounting with exception of year-end reports where accrual method of accounting must be used. Year-end report must include all receivables, accounts payable received by the end of the reporting period, and actual depreciation expense.

3.0 REVIEW AND DISTRIBUTION

- 3.1 All financial statements and supporting schedules shall be reviewed and approved by the Chief Financial Officer, prior to being issued by EdTec. They should be signed by the preparer and the Chief Executive Officer.
- 3.2 After approval by the Chief Financial Officer, a complete set of monthly financial statements shall, including the supplemental schedules described above, shall be distributed to the following individuals:
1. All members of the Finance and Audit Committee of the Board
 2. Chief Executive Officer
 3. School Principals and any other employee with budget-monitoring responsibilities will receive only the budget vs. actual report
- 3.3 Financial statements may include an additional supplemental schedule prepared or compiled by the Chief Financial Officer. The purpose of this schedule is to provide known explanations for material budget variances in accordance with MERF'S budget monitoring policies. Also included is a list which lists all invoices that have not been paid at the end of the year and all revenues, if any, that have not been received.

4.0 ANNUAL FINANCIAL STATEMENTS

- 4.1 A formal presentation of MERF's annual financial statements shall be provided by the independent auditor to the full Board of Directors at MERF's annual meeting. This presentation will be preceded by a meeting with MERF's Finance and Audit Committee, at which the Finance and Audit Committee will vote to accept or reject the annual financial statements.

5.0 GOVERNMENT RETURNS

- 5.1 MERF must be aware of its tax and information return filing obligations and comply with all such requirements of the Federal government, California and local jurisdictions. Filing requirements of MERF include, but are not limited to, filing annual information returns with the Internal Revenue Service (IRS), California charitable solicitation reports, annual reports for corporations, property tax returns, income tax returns, information returns for retirement plans, annual reporting of compensation paid, and payroll withholding tax returns.

6.0 FILING OF RETURNS

- 6.1 It is the policy of MERF to become familiar with the obligations in each jurisdiction and to comply with all known filing requirements. The Chief Financial Officer shall be responsible for identifying all filing requirements and assuring that MERF is in compliance with all such requirements.
- 6.2 It is also the policy of MERF to file complete and accurate returns with all authorities. MERF shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.
- 6.3 Reports and returns which may be required to be filed by MERF include, but are not limited to, the following returns:
1. **Form 990** - Annual information return of tax-exemption of MERF, filed with IRS. Form 990 for MERF is due on the **fifteenth day of November, annually.**
 2. **Form 990-T** – Annual tax return to report MERF'S unrelated trade or business activities (if any), filed with the IRS. Form 990-T is due on the **fifteenth day of November, annually.**
 3. **Form 199** – Exempt Organization Annual Information Statement or Return (California) – This form is due on the **fifteenth day of November, annually.**
 4. **Form 5500** - Annual return for MERF'S employee benefit plans. Form 5500 is due on the **fifteenth day of November, annually.**
 5. **Federal and State Payroll Returns** - Filed on a quarterly or annual basis.

6. **Form RRF-1** – Registration/Renewal Fee Report to Attorney General of California. This form is due on the **fifteenth day of November, annually.**
7. **SF-SAC** – The Office of Management and Budget requires all Form SF-SAC and Single Audit submissions to be submitted on the Federal Audit Clearinghouse (FAC) Internet Data Entry System. The due date is established by OMB Circular A-133.
8. **Form 1099's** – See **PUR101 VENDOR SELECTION.**

- 6.4 MERF'S fiscal and tax year-end is June 30. All annual tax and information returns of MERF Form 990, Form 990-T are filed on the accrual basis of reporting.
- 6.5 Federal and all applicable California payroll tax returns are prepared by the Chief Financial Officer, in consultation with MERF'S independent auditor and the pension plan third-party administrator.
- 6.6 It is the policy of MERF to comply with all California payroll tax requirements by withholding and remitting payroll taxes to California for each MERF employee.

7.0 PUBLIC ACCESS TO INFORMATION RETURNS

- 7.1 Under regulations that became effective in 1999, MERF is subject to Federal requirements to make the following forms "widely available" to all members of the general public:
 1. The three most recent annual information returns (Form 990), and
 2. MERF'S original application for recognition of its tax-exempt status (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.
- 7.2 It is the policy of MERF to adhere to the following guidelines in order to comply with the preceding public disclosure requirements:
 1. Anyone appearing in person at the offices of MERF during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Chief Financial Officer shall be responsible for maintaining this copy of each form and for making it available to all requesters.
 2. For all written requests for copies of forms received by MERF, the Organization shall require pre-payment of all copying and shipping charges. For requests for copies that are received without pre-payment, MERF will notify the requester of this policy via phone call or by letter within 7 days of receipt of the original request.

3. The copying cost charged by MERF for providing copies of requested forms shall be \$1.00 for the first page copied and \$0.20 for each subsequent page. All copies shall be shipped to requesters via Priority Mail, thus, shipping charges will be a standard \$5.00 per shipment.
4. After payment is received by MERF, all requested copies should be shipped to requesters within 30 days. Making of all copies and shipping within the 30-day time period shall be the responsibility of the Accounting Department.
5. For requests for copies made in person during normal business hours, copies shall be provided while the requester waits provided the request is for twenty-five (25) or less copied pages. Requests for copies in excess of 25 pages but less than 100 pages will be available the next business day. All requests in excess of 100 pages will be available to the requestor five (5) business days after the request.
6. MERF shall accept certified checks and money orders for requests for copies made in person. MERF shall accept certified checks and money orders or personal checks as payment for copies of forms requested in writing. Personal checks must clear the bank prior to the copies being made and delivered to the requestor.

8.0 UNRELATED BUSINESS ACTIVITIES

- 8.1 Identification and Classification of unrelated business activities must be separately identified.
- 8.2 It is the policy of MERF to properly identify and classify income-producing activities that are unrelated to MERF's tax-exempt purpose using the guidelines described in the Internal Revenue Code and underlying regulations. Such income accounts shall be segregated in separate accounts in the general ledger of MERF in order to facilitate tracking and accumulation of unrelated trade or business activities.
- 8.3 It is the policy of MERF to file IRS Form 990-T to report taxable income from unrelated trade or business activities. Form 990-T is not subject to any public access or disclosure requirements. Accordingly, it is the policy of MERF not to distribute copies of Form 990-T to anyone other than management and the Board of Directors of MERF.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

SOP # G&A118 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A118 BUDGETING

Policy: The School Site Principals with the support of EdTec are responsible for preparing, monitoring, and implementing the annual school site budget. The School Site Principal must have the school site budget approved by the Board of Directors no less than 60 days before the fiscal year end. It is the School Site Principal's responsibility to work with the central office in order to acquire the necessary budgetary information to implement their program. The budget may be revised as needed.

An annual Organization-wide budget shall be prepared on the accrual basis of accounting and the budget shall be adopted by the Board of Directors. The budget may be revised as needed. It is the policy of the Organization to adopt a final annual operating budget at least 60 days before the beginning of MERF's fiscal year.

Purpose: A budget is a management commitment of a plan for present and future MERF activities that will ensure survival. It provides an opportunity to examine the composition and viability of MERF's programs and activities simultaneously in light of all available resources

Scope: This applies to all departments and chart of accounts of the Organization.

Responsibilities:

Principal is responsible for providing information to EdTec so that the back-office service provider can prepare the annual site budget and make revisions as needed.

The Finance Department is responsible for reviewing the school site and Organization-wide budgets and budget revisions.

Edtec is responsible for preparing monthly budget vs. actual comparison reports.

Background: Budgeting is an integral part of managing MERF in that it is concerned with the translation of MERF's goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the MERF's financial and human resources. A budget is a management commitment of a plan for present and future MERF activities that will ensure survival. It provides an opportunity to examine the composition and viability of MERF's programs and activities simultaneously in light of all available resources.

Procedure:

1.0 PREPARATION AND ADOPTION

- 1.1 The school site budgets will be developed by the School Site Principals and EdTec., The Organization-wide budget will be prepared by the Chief Financial Officer with the support of EdTec. They will gather proposed budget information from all School Site Accountants and others with budgetary responsibilities and prepare the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.
- 1.2 After appropriate revisions and a compilation of all school site budgets by EdTec, a draft of the school site budgets and Organization-wide budget will be presented to the Chief Financial Officer for discussion, revision, and preliminary approval. The Chief Executive Officer is responsible for the final approval of all budgets.
- 1.3 The final budget is then submitted by the Chief Financial Officer to the Board of Directors for adoption. School Site Principals shall be present at the Board of Directors budget approval meeting.
- 1.4 It is the policy of MERF to adopt a final annual operating budget at least 60 days before the beginning of the MERF's fiscal year. In addition, the Accounting Department must setup the new fiscal year accounts, to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts), to ensure proper classification of activities and comparison of budget versus actual once the new year commences.

2.0 MONITORING PERFORMANCE

- 2.1 MERF will monitor its financial performance by comparing and analyzing actual results with budgeted amounts. This function will be accomplished in conjunction with the monthly financial reporting process described earlier.
- 2.2 On a monthly basis, budget reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by EdTec and distributed to each respective School Principal by the 20th of the following month.
- 2.3 The financial reports will also be distributed, on a bi-monthly basis, to the Board of Directors. The Chief Financial Officer and School Site Principal, with the

support of EdTec, will be responsible for answering budget questions posed at the Board meetings.

- 2.4 The Chief Financial Officer will also institute an on-going monitoring plan to ensure the fiscal operations effectively implement all Federal and State requirements and to ensure the safeguarding of Federal and State funds and assets.

3.0 BUDGET MODIFICATION

- 3.1 After a budget has been approved by the Board of Directors and adopted by MERF, reclassifications of budgeted expense amounts may be made by EdTec, with approval from the Chief Financial Officer.
- 3.2 Budget reclassifications of any amount are at the discretion of the Chief Financial Officer.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office provider process	Oswaldo Diaz, CFO

SOP # G&A121 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A121 SCHOOL SITE ACCOUNTING

Policy: It is the policy of MERF to consider each school to be a separate and distinct financial accounting entity in order to maintain an accurate fund accounting system.

Purpose: The purpose of this policy is to clearly define relationships between each school and with the business office in regards to financial accounting.

Scope: This applies to the Organization's charter schools and business office.

Responsibilities:

EdTec, with the support of the Financial Analysts, is responsible for timely and accurate recording of transactions, providing useful management information, and properly reporting such information for various user needs.

The Chief Financial Officer is responsible for overseeing the Financial Analysts and providing assistance where needed.

Background: Separate accounting for each of the charter schools is critical in order to monitor budget performance and to determine how to allocate resources.

Procedure:

1.0 SEPARATE ACCOUNTING

1.1 EdTec will utilize the same accounting policies for each school they are responsible for. Consistency in accounting will ensure that the charter schools can be evaluated using the same benchmarks and will assist in evaluating performance.

1.2 Each Charter School will have its own accounting file to assist in maintaining separate accounting for each school, and a separate bank account to avoid comingling of funds.

2.0 FUNDRAISING

2.1 Fundraising generated from each school may not be transferred to another school.

2.2 Revenues from fundraising will be recorded in the accounting system using the resource tracking system in order to account for funds received from different events. Funds may be used for operating purposes unless restricted by the donor or explicitly restricted by the event.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office provider processes	Oswaldo Diaz, CFO

SOP # PUR102 Revision: 2

Prepared by: Central Office

Effective Date: 11/12/15

Approved by: BOD

Title: PUR102 GENERAL PURCHASING

Policy: All purchases of goods and services shall be consistent with the Board-approved budget. The investment in supplies and capital equipment will be facilitated through the Purchasing Department, maintained at the lowest effective level and supervised consistent with a common set of procedures and controls as required by all regulatory and customer contract requirements.

Purpose: To outline the actions to be taken for 1) the procurement of supplies and capital equipment, 2) the completion of related documents.

Scope: This procedure applies to the purchase of all supplies and capital equipment for all departments within the Organization.

Responsibilities:

All personnel that require a product or service must complete a request in CoolSIS specifying items for purchase and obtain required approvals.

Chief Financial Officer and the Finance Department are responsible for using good purchasing methods, optimizing price savings, quality or value of products, vendor working relationships, placing orders with approved suppliers, negotiating pricing with suppliers, and forwarding all paperwork to EdTec accounts payable for payment.

EdTec accounts payable is responsible for payment of invoices only after satisfactory completion or delivery of goods or services has been made.

The School Site Personnel and Other Designated Individuals are responsible for receiving, inspecting materials, and forwarding all paperwork to a designated agent at EdTec.

Procedure:

1.0 ORDER DETERMINATION AND REQUISITION

1.1 Purchasing should obtain the optimal price for any purchases. All purchases above \$5,000 require at least 3 quotes to be obtained. Quotes may be submitted by the requestor, Controller or the Purchase Manager can obtain the 3 quotes. The quotes are entered into CoolSIS along with evaluation and selection of the best option by the requestor. The Chief Financial Officer reviews the 3 quotes and forwards the recommendations to the Chief Executive Officer for final review and decision.

1.2 For purchases of goods and supplies, a request in CoolSIS will be prepared by the originating individual or department. The CoolSIS request should be completed

and approved with the following items and any additional supporting documentation:

- Complete description with part or model numbers and link to website if available
- Engineering drawings and specifications
- Type, Class, Grade required
- Quantity required
- Date required
- Requesting department, account code, and allowance/resource code
- Recommended vendor or source if applicable
- Other requirements
- Special shipping requirements
- Special inspection requirements upon receipt

For the following purchases, additional information is required:

- Textbooks – Full ISBN
- Airline tickets - passenger(s) legal name(s), date of birth, gender, departure/arrival airport codes and exact dates
- Vehicle rentals - vehicle type, exact dates and exact pick up/drop off locations

1.3 If the requisition is for subcontracted services:

- A complete description of the service to be performed
- Engineering drawings and specifications if appropriate
- Requirements for qualification of personnel
- Other documents such as insurance forms, etc.
- Quality standards to be applied

1.4 Purchasing/Accounting will analyze terms, vendor, pricing, quantity breaks, etc., and will order accordingly in the Organization's best interest. Purchasing will notify the requester of any material variances prior to placement of the order.

1.5 Reimbursements for purchases made by staff will be processed upon proper authorization through CoolSIS.

2.0 ORDER PLACEMENT

2.1 Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS. Purchase orders are exempted for items such as salaries and related costs, utilities, and instate travel, or where a contract exists.

- 2.2 If there are any requirements for items to be inspected at the supplier's or the Organization's premises by the Organization or our customer, the arrangements and method of product release shall be included in the purchasing information.
- 2.4 Buyers must review their purchase orders for accuracy. The buyer submits their authorization through CoolSIS indicating the review was performed.
- 2.5 Orders can be placed with the vendor either by telephone, fax, internet or mail. When placing orders by telephone, the vendor contact and date of order should be noted and a confirming copy of the order sent to the vendor. Pre-approval for any purchase is always required.
- 2.6 Purchasing is responsible for communicating with those receiving the supplies, following-up on shipping, delivery, and expediting and partial shipments of ordered items. Purchasing can either telephone vendors or use a PUR102 Ex1 PURCHASE ORDER FOLLOW-UP form to verify, trace or expedite orders.

3.0 RECORDKEEPING AND MATCHING

- 3.1 When Purchase Orders are issued, the Purchasing and Accounting copies will be placed in an Open File until the items are received. The Open File should be reviewed on a weekly basis to determine whether any orders need follow up.
- 3.2 Items will be received in accordance with procedure PUR103 RECEIVING AND INSPECTION. The completed vendor's packing list is kept at the site where the shipment was received.
- 3.4 For partial shipments, a note will be made in CoolSIS to identify the shipment as partially received. The original Purchase Order will be kept in the open file until all items are received.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Segregation of duties and limits	Oswaldo Diaz, CFO
2	11/12/15	Inclusion of back-office service provider processes	Oswaldo Diaz, CFO

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PUR102 Ex1 PURCHASE ORDER FOLLOW-UP

To:

Date: _____

Please rush a reply to us by fax or telephone on the information requested below. Thank you.

Our Purchase Order #: _____

From:

Dated: _____

Please Respond To Our Request As Indicated Below

- Please rush shipment. Advise delivery date: _____
- Has shipment been made? Advise carrier/date: _____
- Partial shipment received. Balance to ship when? _____
- Can you ship in accordance with our requested date? _____
- This shipment will be shipped via what? _____
- Price on Terms do not match quotation: _____
- Please review attached and confirm accuracy of all information and prices. Acknowledge below.
- These items are not taxable. Our Tax Exempt No. is _____. Please revise invoice.
- Incorrect calculations on invoice noted. See attached and verify.
- Other _____

Comments or Reply: _____

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SOP # PUR103 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

TITLE: PUR103 RECEIVING AND INSPECTION

Policy: All parts, components, goods and materials will be received in an organized manner and inspected for conformance prior to stocking or use in order to provide an initial quality control inspection. Any items or shipments rejected will be properly quarantined from other inventory items until disposition.

Purpose: This procedure outlines the steps for the receiving and inspection of materials, components, or parts and the disposition of rejected items.

Scope: This procedure applies to the receipt of all purchases.

Responsibilities:

Anyone Performing the Receiving Function are responsible for receiving, inspecting materials, filing receiving documents at site, and marking purchase order as received.

Purchasing is responsible for accepting or rejecting damaged goods.

EdTec is responsible for payment of invoices.

The Finance Department will review and authorize all rejections.

Procedure:

1.0 RECEIVING

1.1 A "receiver" is any form used to record the specific types and counts of product or materials received. Usually, the receiver is provided by the vendor and is not part of the Organization's system at all.

An example of this would be a detailed packing slip, furnished by the vendor with the shipment. The packing slip should be kept at the school site.

All incoming product or materials are to be counted and reconciled with what was originally purchased. Discrepancies must be recorded.

1.2 All incoming shipments must be examined for apparent package damage. If the shipment has apparent damage, notify Purchasing/Accounting immediately. Purchasing will decide to either accept or reject the shipment from the carrier and/or file a freight claim.

1.3 If the shipment shows no signs of damage or the Purchase Manager or School Site Principal or designee has decided to accept a damaged shipment, count the shipping pieces (i.e., packages, boxes but not the contents; see Inspection below) and confirm with the bill of lading and note any exceptions (i.e., package damage or shortages).

2.0 INSPECTION

- 2.1 At the receiving holding area, each shipment should be unpacked and all items piece counted and matched to the packing list. If a packing list is not available, complete as an example PUR103 Ex1 RECEIVING AND INSPECTION REPORT.
- 2.2 The shipment will then be inspected for conformance according to the inspection level required for each part number (see PUR103 Ex3 INVENTORY INSPECTION LEVELS). If multiple part number classes are included in the shipment, each class will be segregated and inspected accordingly.
- 2.3 Any previously undiscovered damage to individual inventory items should be noted on the inspection report and immediately followed up with the vendor.

3.0 REJECTION, DISCREPANCIES AND DISPOSITION

- 3.1 Any count discrepancies will be noted on the packing list or as an example PUR103 Ex2 RECEIVING AND INSPECTION REPORT, signed and forwarded to Purchasing. Purchasing will then follow-up with the vendor to resolve the shipping discrepancy.
- 3.2 If there is a non-conformance discrepancy, the suspect goods will be red-tagged and separated (quarantined) from other parts and immediately placed in a separate holding area for disposition.
- 3.3 If only partial goods in the shipment are of non-conformance, the accepted goods should be noted on the paperwork and stocked or placed in use per above procedure.
- 3.4 Complete as an example PUR103 Ex2 RECEIVING AND INSPECTION REPORT for any rejected parts. Accounting will review and authorize all rejections and complete Part II of the report.
- 3.5 Goods found to be in conformance or suitable for their intended use and accepted by Accounting will have the red tag removed and be returned to the receiving area or location the product is needed for use. Accounting will note on the report the justification for any accepted parts and forward the report along with the packing list to the Purchase Manager.

Goods rejected by Accounting will continue to be quarantined and red tagged until disposed. Purchasing will determine and arrange for the appropriate disposition of rejected items (i.e., return to vendor for credit, scrap, etc.).
- 3.6 Unidentified shipments should be resolved by the Purchase Manager. Contact the Chief Financial Officer to resolve any suspicious looking packages.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Changes to responsibilities	Oswaldo Diaz, CFO

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PUR103 Ex2 RECEIVING AND INSPECTION REPORT

PART I RECEIVING

Date: _____

Vendor/Supplier/Subcontractor: _____

P.O. Or Contract No.: _____

Item No.	Description	INSPECTION Criteria	QUANTITIES		
			Ordered	Received	Inspected

Received By: _____

PART II INSPECTION

Inspected By: _____

Sample Lot

Conformance/Discrepancies to Specifications

		YES	NO		YES	NO
Lot Size: _____	Shipping Damage	<input type="checkbox"/>	<input type="checkbox"/>	Functional	<input type="checkbox"/>	<input type="checkbox"/>
Sample Qty: _____	Markings/Finish	<input type="checkbox"/>	<input type="checkbox"/>	Dimensions	<input type="checkbox"/>	<input type="checkbox"/>
	Attributes	<input type="checkbox"/>	<input type="checkbox"/>	Other	<input type="checkbox"/>	<input type="checkbox"/>

Accepted: _____ Date: _____ Rejected: _____ Date: _____

Place in Stock

Cause for Rejection: _____

Forward to Next Operation

PART III REJECTED PARTS DISPOSITION

Return to Vendor

Conditional Acceptance Approvals

Signature

Signature

Remarks: _____

Further comments may be noted on back of report or additional sheets if necessary.

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PUR103 Ex3 INVENTORY INSPECTION LEVELS

The following are generic descriptions of the type of inspections that should be performed for various classes of inventory items. These descriptions are not completely comprehensive for all the possible types of inventory that can be received and therefore, the inspector should use appropriate judgment to determine any special inspection procedures that may be necessary for unique items.

The inspection levels are intended to be cumulative in that higher level inspections will also include all lower level inspection procedures.

The percentage of the total parts inspected will be according to the part number specifications. For example, an inspection level indication of "Level II, 25" would require that 25% of the parts received in the shipment will be examined at a Level II inspection.

If defects or rejected items are discovered within a shipment and less than a 100% inspection has been performed, the receiving inspector will consult with the Quality Control Manager to determine the appropriate action for assurance of the remainder of the shipment.

- Level I: Visual inspection of the shipment or lot. Items appear reasonably to match packing list description(s). Nothing comes to the attention of the inspector as noticeable defects or as unusual and unordinary.
- Level II: Actual hands-on visual inspection of individual parts. Each part inspected will be analyzed for the quality of workmanship and construction and the appearance of any defects.
- Level III: A functional test of the part will be performed as appropriate for the item. For example, pneumatic parts should indicate function when attached to compressed air source; moving parts should rotate, slide etc.; electrical components should operate, light, etc.
- Level IV: The part will be inspected against a set performance or measurement standard as indicated in the part file. For example, structural items will be measured for compliance to drawings within specified tolerances; electrical and mechanical devices will function according to specified performance standards.

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SOP # PUR104 Revision: 2
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: PUR104 ACCOUNTS PAYABLE AND CASH DISBURSEMENTS

Policy: Internal controls are required to ensure that only valid and authorized payables are recorded and paid. Accounting procedures should be implemented to ensure the accuracy of amounts, coding of General Ledger accounts and appropriate timing of payments. All accounts payable and cash disbursements will have documented pre-approval, and the authorization limits are stated in the below Responsibilities section.

Purpose: To explain the practices for documenting, recording and issuing payments for accounts payable transactions. (Note: Payments, disbursements, and expenditures result from accounts payable transactions)

Scope: This procedure applies to all purchases including, contractors, consultants, and merchandise and non-merchandise purchases.

Responsibilities:

The Principal at each school site is responsible for reviewing and approving payments under \$5,000 in CoolSIS, in accordance with the approved budget.

The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments.

The Chief Executive Officer is responsible for reviewing and approving payments over \$10,000 in accordance with the board approved budget, as well as up to \$10,000 for non-budgeted items.

EdTec is responsible for payment of invoices in a timely manner.

Background: Properly recording liabilities is generally a three-step process, particularly, for merchandise purchases.

The first step is recording the liability upon receipt of merchandise, using the purchase order estimates or other documentation as a guideline. For accuracy and timeliness of data, a liability should be recorded as soon as the Organization receives the purchased items.

Consultant projects are not recognized as a liability until the invoicing from the consultant is received unless and accrual has been recorded to recognize the total estimated cost of the consultant's services.

By necessity, this initial recording is usually an estimate or encumbrance and can be finalized when the actual invoice arrives. This is why a Purchase Order is so important for merchandise purchases. It documents

the Organization's understanding of how much each item will cost, per the vendor's terms. This includes estimates for freight and any other charges.

The second step takes place when the vendor's invoice is received. At this point the actual liability is finalized, with any necessary adjustments to the item costs, freight, or other charges.

The third step involves the preparation, issuance of payment for the goods received, and subsequent filing of all paperwork for easy retrieval.

Procedure Overview:

Cash disbursements are generally made for:

1. Payments to vendors for goods and services
2. Taxes/license fees
3. Staff training and development
4. Memberships and subscriptions
5. Meeting expenses
6. Employee reimbursements
7. Marketing/promotional materials

Checks are processed throughout the week.

Requests for cash disbursements are submitted to Accounting through CoolSIS.

Documentation for CoolSIS requests can be in three ways:

1. Original invoice
2. Purchase request (submitted on approved form)
3. Employee expense report or reimbursement request

All invoices must be approved by the appropriate staff prior to being submitted to accounts payable. Accounts payable will determine the account code for each invoice.

Approvals for reimbursement requests must be obtained prior to the purchase. The Organization is not obligated to reimburse requests where prior approval was not obtained; however this decision is made at the discretion of the Chief Financial Officer.

Every employee reimbursement or purchase request must be documented in CoolSIS. Please see PUR106 Reimbursements for more details.

Requests for payment are reviewed in CoolSIS by the Principal, Controller, or Chief Financial Officer dependent on purchase amount. The appropriate personnel:

1. Verifies expenditure and amount
2. Approves for payment if in accordance with budget
3. Provides or verifies appropriate allocation information
4. Provides date of payment taking into account cash flow projections
5. Submits to the School Site Accountant for processing

EdTec processes all payments and:

1. Immediately enters them into the Accounts Payable module unless it is paid upon receipt on the same day
2. Prints checks according to allocation and payment date provided by the authorizing party
3. Submits checks, with attached backup documentation, to Chief Financial Officer for approval and signature.
4. Mails checks and appropriate backup documentation
5. Files all backup documentation in the appropriate file
6. Monitors accounts payable throughout the month

Procedure:

1.0 DOCUMENTING ACCOUNTS PAYABLE

1.1 The following documents will be forwarded to EdTec accounts payable as a PDF batch for temporary filing and subsequent matching to form an accounts payable voucher package:

- Purchase Order from CoolSIS
- Vendor invoice
- Vendor/Consultant contract

1.2 Once EdTec has received all of the above documents, the following steps will be performed to ensure proper authorization, validity of purchase, receipt of purchased items or services and accuracy of amounts.

- The purchase order should be evaluated for proper authorization and the nature of the purchase and pricing as shown on the invoice reviewed for validity.
- The quantities shown shipped or delivered on the invoice will be compared to the packing slip and/or receiving reports if items have been received by the

designee of each site. Any discrepancies must be followed-up and resolved prior to commencing with the disbursement process.

- Calculations on the invoice will be recomputed such as quantities received multiplied by unit price and totals.

2.0 RECORDING NON-MERCHANDISE PAYABLES

- 2.1 Non-merchandise expenditures like utilities, rent, insurance, taxes, repairs, professional fees, etc., are generally not recorded through the purchase order routine. However, there may be other documentation, like contracts, requisitions, and other agreements. These should be filed in the applicable vendor file as documentary support. Upon receipt of the invoice, the charges should be entered into the payable system and coded to the appropriate expense account.
- 2.2 Generally, once invoices (both merchandise and non-merchandise) have been entered, they can be filed in the respective vendor files, ordered by date. To guard against misfiling an un-entered invoice, consider stamping "entered" on each invoice when it's recorded in accounts payable. It is also helpful to note the entered date and initial the entry.

3.0 PAYMENT OF ACCOUNTS PAYABLE

- 3.1 Accounts payable systems generally provide an aged accounts payable report and list the open payables within the accounting system. Open payables are reviewed by EdTec. The Chief Financial Officer should select the bills to be paid based on the funds available and a projection of cash flow or receipts over the coming week. Once complete, process the disbursements by either printing the check, electronic online bill pay, wire transfer, or ACH withdrawal for the selected bills to be paid.

Note: Accounts payable should normally be paid within seven days or sooner of their payment term unless otherwise determined by the Chief Financial Officer.

- 3.2 Any vendor credits which are amounts owed to the Organization should be applied to amounts currently owed to the vendor when determining payment. These are normally received in the form of a credit memo or adjusting invoice. These should be entered into the system like any other invoice and applied to the next payment being made. There is no reason to "age" a credit memo.
- 3.3 Pull all Invoices to be paid from the files and match them with the printed checks, wire transfer, electronic online bill pay, or ACH withdrawal documentation. Present the materials to the Chief Financial Officer for review and signing.
- 3.4 Immediately ensure that all printed checks, wire transfer, electronic online bill pay, or ACH withdrawal documentation are signed and approved and correctly recorded in the accounting system. Stamp the invoices "paid" to document they've been paid. Use only checks that incorporate a two stub plus check form in order to attach one stub to the paid invoice and the other to the remittance copy of the Invoice.

- 3.5 If one check or electronic online bill pay pays several Invoices then either photocopy the stub or print the electronic online bill pay screen print and attach a copy to each paid Invoice or consider attaching all paid Invoices to the one check stub or the electronic online bill pay document. File all resulting documentation according to check number sequentially in the checks paid binders.
- 3.6 Mail the checks as soon as possible once checks have been posted and "paid" by the system. It is not advisable to "hold" checks for additional days after posting. This practice usually occurs when there are insufficient cash flows. However holding checks increases the difficulty of projecting cash flow, reduces cash balance accuracy, and causes confusion when trying to reconcile accounts payable vendor balances. None of these balances will be accurate if printed checks are held back from mailing. If cash flow is insufficient to mail the checks, then it is advisable not to post and print checks in the first place.

4.0 MANUAL CHECKS

- 4.1 The Organization does not permit the use of manual checks.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Revision of Purchase limits	Oswaldo Diaz, CFO
2	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

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SOP # PUR105 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: PUR105 PREPAID EXPENSES

Policy: It is the policy of MERF to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses and to amortize these items over the corresponding time period. For purposes of this policy, prepaids are only accounted for at the end of the fiscal year and the amount that is considered to be prepaid remains at the discretion of the Chief Financial Officer.

Purpose: To ensure the proper payment and accounting of expenses that have a future benefit allocated over time.

Scope: Any transaction that is currently paid that has a value that can be amortized over a future time period.

Responsibilities:

The Chief Financial Officer is responsible for reviewing and authorizing prepaid expenses.

The Finance Department with the support of EdTec is responsible for processing prepaid payments and amortizing the prepaid cost of the expected future life of the prepaid asset.

Background: Prepaid expenses are very common and allow the Organization to on occasion take advantage of pre-paying for certain expenses and thus recovering discounts or ensuring that a certain expense is fully paid.

Procedure:

1.0 ACCOUNTING TREATMENT

1.1 Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statements date shall be classified as non-current assets.

2.0 PROCEDURES

2.1 As part of the account coding process performed during the processing of accounts payable at the end of the fiscal year, all incoming vendor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

The Finance Department shall maintain a schedule of all prepaid expenses. The schedule shall indicate the amount and date paid, the period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This

schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Revision of responsibilities	Oswaldo Diaz, CFO

SOP # PUR106 Revision: 2
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: PUR106 REIMBURSEMENTS

Policy: Internal controls are required to ensure that only valid and authorized reimbursements are recorded and paid. Accounting procedures should be implemented to ensure the accuracy of amounts, coding of General Ledger accounts and appropriate timing of payments.

Purpose: To explain the practices for documenting, recording and issuing payments for reimbursement transactions.

Scope: This procedure applies to all reimbursements.

Responsibilities:

The Principal at each school site is responsible for reviewing and approving payments under \$5,000 in Coolsis, in accordance with the approved budget.

The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments.

The Chief Executive Officer is responsible for reviewing and approving payments over \$10,000 in accordance with the board approved budget, as well as up to \$10,000 for non-budgeted items.

EdTec accounts payable is responsible for payment of reimbursements in a timely manner. A timely manner is defined as within two weeks upon submission to EdTec accounts payable.

Background: Properly recording reimbursements is generally a three-step process.

The first step is accurately submitting reimbursement receipts along with a reimbursement authorization form.

The second step is obtaining the appropriate authorization.

The third step involves the preparation, issuance of reimbursement payment in a timely manner, and subsequent filing of all paperwork for easy retrieval.

Procedure Overview:

Reimbursements are generally made for:

1. Travel and conferences
2. Mileage
3. Meals

4. School/classroom supplies
5. Allowable academic expenses
6. Student awards
7. Other expenses

Reimbursement checks are processed on two week cycles or sooner.

Requests for cash disbursements are submitted to Accounting through CoolSIS. Documentation for CoolSIS requests can be in three ways:

1. Original invoice
2. Purchase request (submitted on approved form)
3. Employee expense report or reimbursement request

All reimbursement requests must be approved by the appropriate staff prior to being submitted to accounts payable. Accounts payable will determine the account code for each invoice.

Approvals for reimbursement requests must be obtained prior to the purchase. The Organization is not obligated to reimburse requests where prior approval was not obtained.

Every employee reimbursement or purchase request must be documented in CoolSIS with travel authorization, receipts, nature of business, program allocation, and funding source (if applicable) before approving for reimbursement as follows:

Travel and Conferences - an itemized receipt from the hotel detailing all charges, the person(s) for whom the lodging was provided, and the specific business purpose. This includes itemized receipts for parking, tolls and bridges, car rentals, taxis, and conference receipts. (See G&A103, Travel and Entertainment policy for more detailed information.)

Car Rentals – When possible, advance approvals are recommended. The employee is required to make their own car rental arrangements. Vehicle selection will be based upon the most cost-effective class that satisfies requirements for the employee(s) and any demonstration equipment.

Supplemental auto insurance coverage offered by car rental agencies must be purchased and will be reimbursed.

Mileage/Personal Vehicles - An employee required to use their own automobile for business will be reimbursed in accordance with the current IRS mileage reimbursement rate. The employee must provide on the expense report, documentation including dates, miles traveled and purpose of each trip.

The Organization assumes no responsibility for personal automobiles used for business. Further, any parking or speeding violation is the sole responsibility of the employee.

Meals and Entertainment - a receipt must be provided showing the cost of food, beverage, and gratuities, including the names of every person for whom food or beverage was provided, and the specific business purpose. Entertainment expenses are disallowed.

Meal and Entertainment tips are limited to 15% (unless automatically assessed by the eating establishment) of the pre-tax meal total cost and any tip that is in excess of the pre-tax meal total cost will not be reimbursed. For example, a meal that costs \$10 may have an 8% sales tax bringing the total meal price before tip to \$10.80. Figure the tip on the \$10 amount at 15% or \$1.50 and that amount of tip or less is reimbursable. If you tipped more than a \$1.50, that difference is not reimbursable. You are always allowed to tip less than 15% should you choose to do so.

School/Classroom Supplies, Allowable Academic Expenses, and Student Awards – these expenditures are subject to the approval of the Principal. Gifts of any kind are never allowed. Student awards may only be paid from non-ADA and unrestricted sources. In other words, student awards may be paid from unrestricted fundraising or from other unrestricted sources of income, subject to approval of the Principal and/or Central Office.

Other Expenditures - a receipt from the vendor detailing all goods or services purchased (including the class of service for transportation) and the specific business purpose.

Non-Reimbursable Expenses - Some expenses are not considered valid business expenses by the Organization, yet may be incurred for the convenience of the traveling individual. Since these are not expenses for the business then they are not reimbursable. (The following can be used as a guide of expenses, which are not reimbursable)

Examples include:

- Airline or travel trip interruption insurance
- Airline or travel lounge clubs
- Shoe shine or Dry-cleaning (except for extended travel beyond 5 days)
- Movies or personal entertainment
- Books, magazines or newspapers
- Theft or loss of personal property
- Doctor bills, prescriptions, or other medical services

- Parking tickets, traffic tickets or Car towing if illegally parked
- Health club memberships
- Baby sitter or Pet care fees
- Barbers and Hairdressers

Requests for reimbursement payments are reviewed in CoolSIS by the Principal, Chief Financial Officer, or Chief Executive Officer, dependent on purchase amount. The appropriate personnel:

1. Verifies and matches expenditure and amount
2. Approves for payment if in accordance with budget
3. Provides or verifies appropriate allocation information
4. Provides date of payment taking into account cash flow projections
5. Submits to the School Site Accountant for processing

Accounts Payable processes all payments and:

1. Immediately enters them into the Accounts Payable module, unless paid upon receipt on the same day
2. Prints checks according to allocation and payment date provided by the approving party
3. Submits checks, with attached backup documentation, to Chief Financial Officer for approval and signature
4. Stamps invoice “paid”
5. Mails checks and appropriate backup documentation
6. Files all backup documentation in the appropriate file
7. Monitors accounts payable throughout the month

Procedure:

1.0 DOCUMENTING REIMBURSEMENTS

All business reimbursement expenditures incurred by employees of the Organization are reimbursed through CoolSIS. Reimbursement receipts must be submitted monthly and any receipt that is older than 60 days will not be reimbursed at the discretion of the Chief Financial Officer.

Expense report forms must be filled out completely. Required original receipts for items charged must accompany all reimbursement documentation as well as uploaded into CoolSIS. Any questions regarding completion of the report should be directed to the employee's supervisor or the accounting department.

Upon completion, the expense report along with all attachments should be submitted to the employee's appropriate supervisor in CoolSIS for approval. After approval, the expense report is submitted to the accounting department for processing and reimbursement. In order to expedite reimbursement, the employee should ensure that the report is completed properly, required documentation is attached, proper authorization is obtained, and any unusual items properly explained and documented.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Amount limit changes. Mileage reimbursement rate.	Oswaldo Diaz, CFO
2	11/12/15	Inclusion of back office service provider and amount limit changes.	Oswaldo Diaz, CFO

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SOP # REV101 Revision: 1

Prepared by: Central Office

Effective Date: 11/12/15

Approved by: BOD

Title: REV101 SALES RECEIPT PROCESSING

Policy: To ensure the most accurate process for billing for services, sales receipts will be properly evaluated and approved prior to entry into the accounting system.

Purpose: This procedure outlines the activities and responsibilities involved in verifying the acceptability of all sales receipts.

Scope: These procedures are to be followed for all sales receipts.

Responsibilities:

EdTec approves sales receipt documentation.

Procedure:

1.0 DOCUMENT VERIFICATION

1.1 Sales Receipts are often used for Parenting Fees and other similar fees. Verify that all of the correct documents have been used and are present to support the sales receipt transaction. The following documents are required to complete the Sales Receipt transaction:

- Document identifying what the money collected is for
- Approval or authorized signature for the course
- Customer, parent, or other correspondence or support documentation, etc
- Complete the EdTec Deposit Log

1.2 Verify that all required information is available to complete the sales receipt.

1.3 Review the customer's Accounts Receivable aging and determine that the customer is current with their payments and that the new sales receipt will not affect their balance.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

SOP # REV102 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: REV102 INVOICING, ACCOUNTS RECEIVABLE, RECEIVABLE ACCRUALS

Policy: The Finance Department is responsible for the timely preparation and distribution of invoices to optimize cash flow and customer payments. The Finance Department with the support of EdTec will also maintain accurate records over Accounts Receivables and Accruals and abide by proper internal controls.

Purpose: To explain the methods for the preparation of invoices, accounts receivable, and receivable accruals records processing.

Scope: This procedure applies to all revenue earned and services provided by the company.

Procedure:

1.0 SALES RECEIPT REVIEW

1.1 A formal invoice is not always applicable such as when service fees are collected for items such as Parenting.

1.2 The SALES RECEIPT should contain all pertinent billing information as part of the company's sales receipt procedure. However, as part of proper internal control, Billing will verify the information contained on the customer's sales receipt documentation.

As part of this review process, the propriety and accuracy of contact information, prices, description of services, extensions and footings will be determined.

2.0 INVOICE PREPARATION AND POSTING

2.1 The next sequentially numbered Invoice (see example REV102 Ex1 INVOICE) will be prepared from the information from the Federal, State, or Local Grant or Contract Language including all reimbursable costs and will include the invoice date, service item, description of services or billing information, quantity, rate, class or program code, price and extended amounts and the customer's billing addresses.

2.2 Post the invoice by saving the transaction.

3.0 DISTRIBUTION

3.1 Send one copy of the invoice to the customer and retain a second copy of the invoice in the customer file.

4.0 ACCOUNTS RECEIVABLE

4.1 Accounts Receivable will receive and process payments from customers in accordance with the CASH RECEIPTS procedure.

- 4.2 On a monthly basis, Accounts Receivable will generate an aged trial balance of customers' accounts with individual invoice information and days outstanding and will forward to Finance Manager and Chief Financial Officer for their follow up on any aged invoices.
- 4.3 Accounts Receivable will generate monthly statements of outstanding customers' accounts and issue them to customers no later than 10 days after each month end.
- 4.4 Accounts Receivable will issue Credit Memos to customers upon receipt of approved changes in the terms.

5.0 RECEIVABLE ACCRUALS

- 5.1 Monthly receivable accruals are at the discretion of the Chief Financial Officer and the Finance Manager when those amounts are reasonably known and quantifiable. Fiscal year end receivable accruals are required to be quantified and recorded no later than August 15th.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back office service provider	Oswaldo Diaz, CFO

REV102 Ex1 INVOICE

INVOICE NO. _____

CUSTOMER:

Item	Description	Qty	Rate	Class	Amount
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Total

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**REV102 Ex 2 ACCOUNTS RECEIVABLE
WRITE-OFF AUTHORIZATION**

Customer: _____

Date: _____

Invoice No's:

Amount of Write-Off

TOTAL

\$

JUSTIFICATION

Summary of Collection Actions To Date:

(Include brief description of collection actions taken by accounting, other Company departments and outside collection agency or legal, if applicable)

Approvals:

Credit Manager: _____

Date: _____

Controller: _____

Date: _____

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SOP # REV103 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: REV103 PROJECT(Grant/Contract) REVENUE: PROGRESS BILLING

Policy: Progress billings will be made to clients on a timely basis throughout the life of the project. Projects are typically considered Federal, State, and Local Grant contracts. These billings will be accurate and easily understood by both parties involved.

Purpose: The purpose for creating progress billings is to obtain payment for the portion of labor and materials, i.e. "reimbursed costs" used up to a certain point in time and before the project is fully completed. This improves the cash flow typical of long-term projects or assignments. This procedure applies to all Federal, State, and Local Grants and Contracts, Service agreements or Projects provided by the Organization.

Scope: This procedure applies to all service agreements or projects provided by the Organization.

Responsibilities:

The Finance Department is responsible for the confirmation of all final program amounts and is responsible for knowing the correct procedures to be followed for each contract.

Procedure:

1.0 CONTRACT TYPES

1.1 Reimbursement for Services. Progress billing for Reimbursement for Services contracts requires School Site Accountants to be up to date and monitor the services being provided according to the terms of each contract. The School Site Accountant will enter into the reimbursement request the allowable costs that may be billed according to the contract. From time to time and at the end of the contract, the Chief Financial Officer reviews the billings of the contract and ensures that all available opportunities to recover reimbursable costs have been considered.

1.2 Set Contracts. Set contracts such as with the individual charter schools involve reimbursement for costs such as building rental and an allowance for the amount of apportionment attendance earned. Although the contract is set by terms of the contract, since student attendance can vary, the invoicing for these types of contracts is the same amount throughout the fiscal year and reconciled at the end of the year to account for the final attendance counts.

2.0 BREAKDOWN OF CONTRACT AMOUNT

2.1 The Finance Department with the support of EdTec is responsible for the final reconciliation of all grant and other contracts at the end of the year by reviewing final billings prepared by the School Site Accountant and/or the School Principal. Normally, the contractual agreement will specify the procedures for payment and may also specify the form of the breakdown of contract amount that is required. Care should be taken to be sure that all costs, services, and fees are fully billed and accounted for in each contract.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office provider and revision of responsibilities.	Oswaldo Diaz, CFO

SOP # REV105 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: REV105 REVENUE RECOGNITION - GRANTS AND CONTRIBUTIONS

Policy: The Organization receives revenue from several types of transactions. It is the policy of the Organization to separate and recognize revenue from grants and contributions separately in the financial statements of the Organization and to comply with all current Federal and California rules regarding solicitation and collection of charitable contributions.

Purpose: To provide a separate accounting of grant and contribution income.

Scope: This procedure applies to all grant and contribution income.

Responsibilities:

Chief Financial Officer and the Finance Department direct the separate accounting for grant revenue and contributions received.

EdTec ensures that grant and contribution revenues are separately tracked within the accounting system.

Definition:

Contribution - An unconditional transfer of cash or other assets to the Organization, or a settlement or cancellation of the Organization's liabilities, in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Condition - A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to the Organization or releases the promisor from its obligation to transfer its assets.

Restriction - A donor-imposed stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in the Organization's articles of incorporation and bylaws. Restrictions on the Organization's use of an asset may be temporary or permanent.

Nonreciprocal Transfer - A transaction in which an entity incurs a liability or transfers assets to the Organization without directly receiving value from the Organization in exchange.

Promise to Give - A written or oral agreement to contribute cash or other assets to the Organization.

Exchange Transaction - A reciprocal transaction in which the Organization and another entity each receive and sacrifice something of approximately equal value

Procedure:

1.0 GRANT AND CONTRIBUTION REVENUE RECOGNITION

1.1 **Grant income** – Recognized as income when received, based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards). The types of grant income typically received by the Organization are:

- (a) Education payments for MERF Charter services.
- (b) Various Federal, State, and Local grants and contracts.
- (c) Other types of grant income may be received from time to time.

At year-end, grant income that has been incurred but not yet received are accrued to conform with generally accepted accounting principles.

1.2 **Contributions** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income).

1.3 CONTRIBUTIONS RECEIVED

A. Distinguishing Contributions from Exchange Transactions

The Organization may receive income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. The Organization shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. The Organization's intent in soliciting the asset, as stated in the accompanying materials;
2. The expressed intent of the entity providing resources to the Organization (i.e. does the resource provider state its intent is to support the Organization's programs or that it anticipates specified benefits in exchange?);

3. Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of the Organization (contribution);
4. Whether payment received by the Organization is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by the Organization, or the cost of those assets plus a markup (exchange transaction);
5. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution); and
6. Whether assets are to be delivered by the Organization to individuals or other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or the Organization is closely connected to the resource provider.

B. Accounting for Contributions

The Organization shall recognize contribution income in the period in which the Organization receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors. Contribution income shall be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of such restrictions. See REV107 Restricted Funds for more details.

Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) of the Organization in the period that the Organization receives evidence that a promise to support the Organization has been made. Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management. Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value. Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to the Organization at the time the Organization receives a promise from a donor.

When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets shall be recorded.

When it receives support in the form of volunteer labor, the Organization shall record contribution income and assets or expenses if one of the following two criteria is met:

1. The contributed service creates or enhances a nonfinancial asset (such as a building or equipment), or
2. The contributed service possesses all three of the following characteristics:
 - a. It is the type of service that would typically need to be purchased by the Organization if it had not been contributed,
 - b. It requires specialized skills (i.e. formal training in a trade or profession), and
 - c. It is provided by an individual possessing those specialized skills.

Contributed services that meet one of the two preceding criteria shall be recorded at the fair market value of the service rendered.

C. Receipts and Disclosures

The Organization and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and its underlying regulations. To comply with those rules, the Organization shall adhere to the following guidelines with respect to contributions received by the Organization.

For any separate contribution received by the Organization, it shall provide a receipt to the donor. The receipt shall be prepared by the School Principal. All receipts prepared by the Organization shall include the following information:

1. The amount of cash received and/or a description (but not an assessment of the value) of any noncash property received;
2. A statement of whether the Organization provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received by the Organization from the donor, and
3. If any goods or services were provided to the donor by the Organization, a description and good faith estimate of the value of those goods or services.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Change in responsibilities	Oswaldo Diaz, CFO

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SOP # REV106 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: REV106 GIFTS-IN-KIND

Policy: MERF may accept contributions of goods or services that can be used to advance the mission of MERF and/or any of its schools or may be converted readily into cash. When accepting a gift-in-kind, the receiver must ask the donor to complete as an example REV106 Ex1 GIFT-IN-KIND FORM. Once the donor has completed the form, the receiver must sign the form and send it immediately to the central office for processing.

Purpose: To ensure that Gift-In-Kind transactions are handled in accordance with IRS guidelines and are properly recorded.

Scope: All Gift-In-Kind transactions.

Responsibilities:

Receiver is responsible for assessing the gift for usefulness to the Organization.

School Principal is responsible for handling donor documentation.

The Financial Analysts are responsible for assessing value of gift and informing EdTec so that it can be recorded into the accounting system.

Definition: **Gifts-In-Kind** - Transactions categorized as a voluntary contribution of goods or services that can be used to advance the mission of MERF or can be readily converted to cash and may qualify as a charitable deduction for the person(s) making the gift.

Contributed services cannot be counted as a gift and do not qualify as a charitable tax deduction to the donor. However, a donor of services may be able to deduct expenses incurred while performing said services. In such cases, the donor should be advised to consult with a tax accountant.

Background: The IRS has specific regulations regarding gifts-in-kind. This policy outlines the process an employee of MERF should follow when presented with a gift-in-kind. It limits the liability that may inadvertently be assumed by placing value on gifts or by accepting a gift that does not advance the mission of MERF or cannot be readily converted to cash. It further assures that a donor will receive timely acknowledgement of his/her contribution.

Procedure:

1.0 RECEIPT OF GIFT

1.1 When presented with a potential gift-in-kind, an individual must assess if the gift can be used to advance the mission of MERF or could be readily converted to cash. If there is any question as to whether the contribution meets either of these

criteria, the individual should contact his/her immediate supervisor or the central office.

- 1.2 If the gift is accepted, the individual should offer an immediate and sincere expression of gratitude. At that time, the donor should be given a Gift-In-Kind form and be encouraged to complete the form at that time. If the donor is unable or unwilling to complete the form, the receiver may complete the form, write "N/A" as the estimated fair market value, and enter that the form was completed by him/her in the note section in the lower right hand corner.

The individual accepting the gift cannot offer tax advice or dictate the value of the contribution. It is the responsibility of the donor to determine the fair market value of the contribution. **Note:** the value is for MERF internal gift reporting and accounting only; the donor's receipt and/or acknowledgement will not indicate value in any way that could be construed as an endorsement of its value.

- 1.3 If the item is personal property of the donor and is valued at more than \$5,000, the donor must obtain a certified appraisal. The appraisal cannot be dated more than 60 days from the date of the donation. It must be prepared, signed and dated by a qualified appraiser. Federal law requires that the donor pay for the appraisal. (The cost of the appraisal is also tax deductible). This value will be used for gift reporting purposes only.

What constitutes a qualified appraisal:

- I. Appraiser must hold himself or herself out to the public as an appraiser and state credentials showing that he or she is qualified to appraise the type of property being valued.
- II. Appraiser must value the property no more than 60 days before the date of gift; it can be done after the gift has been accepted by the MERF.
- III. Appraiser cannot be (1) the donor, (2) the donee (MERF), (3) any party to the transaction, (4) an appraiser used regularly by (1), (2) or (3), or anyone employed or related to (1),(2), or (3).

The appraisal must contain the following information:

- 1. A description of the item
 - 2. Its physical condition
 - 3. The date (or expected date) of the contribution
 - 4. Name, address and tax ID number of the appraiser
 - 5. Qualifications of the appraiser including his/her background, experience and education
 - 6. A statement that the appraisal was prepared for income tax purposes
 - 7. Date the item was valued
 - 8. Appraised fair market value of the item
 - 9. Method of valuation (income approach; market data approach; replacement cost minus depreciation approach.)
 - 10. Appraiser must complete Part IV of Section B on form 8283
- 1.4 The individual accepting the gift will sign and date the Gift-In-Kind form only after the donor has irrevocably turned over the gift-in-kind. Once signed, the

form should be turned over to the School Principal immediately for processing and acknowledgement.

- 1.5 The School Principal will notify the School Site Accountant of the contribution. The School Site Accountant will then provide necessary information to EdTec so that it can be assigned as an asset or income to the appropriate school or to the central office.

2.0 COMPLIANCE

- 2.1 The IRS allows an individual to deduct the full fair market value of a donated item if it is kept by MERF and used for one of its tax-exempt purposes. If the item is to be converted to cash, then the donor may claim a deduction of the cost value or the fair market value, whichever is less. **It is the sole responsibility of the donor to determine the value of a contributed item; the receiver cannot assign a value to the donated item(s).**
- 2.2 Upon receipt of a gift-in-kind, MERF will issue an acknowledgement to the donor along with a copy of the Gift-In-Kind form. The acknowledgement will contain only a description of the contribution and will not include a statement as to the value of the contribution. It will further contain a statement as to what, if any, goods or services were given in exchange for the contribution. MERF cannot issue an acknowledgement for contributions that cannot be used or readily converted to cash.
- 2.3 For gifts with values exceeding \$5,000, the donor must complete all parts of IRS form 8283 and submit the form to MERF for signature. The School Principal, the Chief Financial Officer and the Chief Executive Officer are the only individuals authorized to sign 8283 forms.

If MERF has signed an IRS form 8283 and then sells, exchanges or otherwise transfers the gift within two years from the date of gift, the central office must file a donee information return, IRS form 8282, within 125 days of disposing the property. MERF will advise the donor if such a transaction occurs as it may affect the charitable tax deduction for which they qualify.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Inclusion of back-office service provider process	Oswaldo Diaz, CFO

REV106 Ex1 GIFT-IN-KIND CONTRIBUTION FORM

Date: _____

Event Name (if applicable): _____

Donor Information:

Donor Name _____

Contact Person _____

Address _____

City _____ State _____ Zip _____

Daytime phone _____ E-mail Address _____

Gift Description: _____

Estimated fair market value (by donor): \$ _____

Special instructions (e.g., item delivery or pick up, restrictions, etc.):

Please return this form to:

Finance Department Phone: (714)892-5066
13950 Milton Ave. Fax: (714)362-9588
Suite 200B
Westminster, CA 92683

Per IRS regulations, any item you value over \$500 requires IRS Form 8283; any item you value over \$5,000 requires Form 8283 and a written appraisal.

This form does not serve as a receipt for this contribution, but is intended for our internal record keeping purposes only. A receipt describing the items or merchandise donated will be mailed to the address supplied above. Magnolia Educational & Research Foundation is unable to include the estimated value on the donor receipt. It is the responsibility of the donor to substantiate the fair market value for his/her own tax purposes. The donation of services, although very valuable and much appreciated, is generally not considered tax deductible by the IRS. Please consult with your tax advisor to determine the tax implications of your gift.

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SOP # REV107 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: REV107 RESTRICTED FUNDS

Policy: To properly record and track funds with restrictions in order to ensure the donor's intended uses are met, assist with cash flow planning purposes, and to stay within compliance with laws relating to use of restricted funds.

Purpose: Generally accepted accounting principles require the Organization to classify funds based on the restrictions provided by the donor. These classifications may be unrestricted, temporarily restricted or permanently restricted. Donor restrictions should be in writing, to ensure proper treatment.

Scope: This procedure applies to funds received that are classified as temporarily or permanently restricted.

Responsibilities:

EdTec is responsible for recording restricted donations and releases from restrictions properly in the accounting system. EdTec is also responsible for periodic reconciliation of restricted asset totals and monitoring restrictions to determine whether they have been met.

Chief Financial Officer is responsible for monitoring of restrictions and determining whether fulfilling restrictions can be viable for the Organization.

Definition:

Unrestricted Net Assets - net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Temporarily Restricted Net Assets - net assets whose use are limited by donors to either a specified purpose or a later date. Pledges receivable are considered to be temporarily restricted because of an inference that uncollected amounts are intended for future periods.

Permanently Restricted Net Assets - net assets whose use are restricted in perpetuity, such as endowments.

Procedure:

1.0 RESTRICTED FUNDS

1.1 At the time revenue is earned by the Organization, the Financial Analysts with the support of EdTec will review any related documentation associated with the revenue to determine whether there are any restrictions on the money. Examples

of restrictions are individual donations given with the intent of supporting a particular program or campaign, a grant received to operate a specific program or project, and donations received to hold in perpetuity. This information can be found on the award letter or on the financial instrument itself. If the revenue is determined to contain restrictions, EdTec will record in a separate class in the accounting system to keep separate from unrestricted funds.

- 1.2 **Temporarily Restricted Funds** – These funds will be monitored for satisfaction of donor restrictions on a regular basis. Once stipulations are met, they are reclassified from temporarily restricted funds to unrestricted funds regardless of when the related expenses will occur. This is known as “net assets released from restrictions.”
- 1.3 **Permanently Restricted Funds** – These funds are restricted by the donor for a designated purpose or time restriction that will never expire. The intent is that the principle balance of the contribution will remain as an investment forever, and the Organization will utilize the interest and investment returns, such as with an endowment.

2.0 ACCOUNTING FOR RESTRICTED FUNDS

- 2.1 In addition to the obligation to its donors, the Organization is bound by law to spend contributed dollars as designated. If a condition on restricted funding has not been fulfilled and the money has been spent, the donor can demand that the funds be returned, pursue legal action, or contact the Office of the Attorney General. It is of the utmost importance that donor restricted funds are handled properly.
- 2.2 Do not budget to spend money unavailable to Organization. When planning and budgeting, be mindful of any and all of the time and activity restrictions present on restricted funds. Understand how restrictions will impact cash flow and availability of funds.
- 2.3 Educate staff and board members who are accountable for the Organization’s financial decisions so that they fully understand funding restrictions. Know when the restrictions are satisfied and how to release the funds from restriction.
- 2.4 When analyzing financial reports, pay close attention to unrestricted funds and, unless you are making decisions regarding programming for which the funds have been restricted, avoid basing decisions on restricted funds. Try to focus your attention on the “Unrestricted” amounts. Formatting financial report with columns that delineate unrestricted and restricted funds can be very helpful.
- 2.5 Most restrictions on funds directly relate to the grant or fundraising request. When researching and applying for grants, be aware of any challenges that potential restrictions could present to the Organization.
- 2.6 Fundraising letters and appeals can inadvertently place restrictions on donations. Be certain that managers and donors understand the purpose of contributed dollars and understand if restrictions are present. Also, be certain that staff charged with fundraising understand that appeals can lead to restricted gifts.

- 2.7 Work with staff to understand the true cost of programming. Allocate all direct costs associated with a program. These allocations help to prepare more accurate budgets for grants and fundraising appeals, and better utilize contributions restricted to specific programs to ease the pressure on limited general operating dollars.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Change in responsibilities	Oswaldo Diaz, CFO

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SOP # INV102 Revision: 1
Effective Date: 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: INV102 FIXED ASSET CAPITALIZATION & DEPRECIATION

Policy: Asset acquisitions with a useful life expectancy of greater than one year and with a minimum threshold amount as specified by the Chief Financial Officer should be capitalized by the Organization and depreciated.

Purpose: The purpose of this procedure is to delineate the capitalization and depreciation methods for various asset groups.

Scope: All acquisitions of capital assets for the Organization.

Definitions: Capitalization - Capitalization is the method chosen to record the purchase of a fixed asset on the Organization's accounting books. If an asset is capitalized then it is not expensed in the same year the asset is purchased. Instead the asset is generally recorded on the balance sheet and individually on an asset schedule. Examples of capital expenditures are purchases of land, buildings, machinery, office equipment, leasehold improvements and vehicles. The asset is expensed each year as depreciation.

Depreciation - is an annual income tax deduction that allows the write-down or write-off of the cost of the asset over its estimated useful life to recover the cost or other basis of certain property over the time the property is used. It is an allowance expense for the wear and tear, age, deterioration, or obsolescence of the property.

As an asset ages and is used by the Organization, its value declines. It, in effect, becomes worth less and less over time. The declining value or usefulness of the asset over time is represented as a discount that is applied to the original purchase price. At the end of the asset's depreciation period, (and/or useful life), its value on the balance sheet will be zero, or fully-depreciated. At the same time, the individual depreciation expenses will have all been recorded on the income statement.

Note: Land is not depreciated because land does not wear out, become obsolete, or get used up. But, the building on the land is depreciated. Land is generally viewed as an appreciating asset while all other capital assets are generally viewed as depreciating over time, with use. But, unlike depreciation, an asset's appreciation is not recorded on the books until the asset is sold, which is when the assets appreciation is realized.

Cost basis – The total amount paid for the asset, in cash or kind, is considered the “cost-basis”. This should include all charges relating to the purchase, such as the purchase price, freight charges and installation, if applicable. The cost basis is not the market value or list price of the

asset. It is the total amount invested in the purchase or the total amount paid.

Procedure:

1.0 CAPITALIZATION

- 1.1 All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records.

Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item.

In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Depreciation or amortization is computed on the straight-line basis over the useful lives of the assets.

Any asset that does not meet the above criteria will be expensed such as small tools and equipment or repairs and maintenance.

- 1.2 The cost basis of furniture and equipment assets will include all charges relating to the purchase of the asset including the purchase price, freight charges and installation if applicable.
- 1.3 Leasehold improvements including painting are to be capitalized if they relate to the occupancy of a new office or a major renovation of an existing office or site. Expenditures incurred in connection with maintaining an existing facility in good working order should be expensed as a repair.
- 1.4 The cost of buildings should include all expenditures related directly to its acquisition or construction. This cost includes materials, labor and overhead incurred during construction, and fees, such as attorney's and architect's and building permits.
- 1.5 Maintain proper files on the details to all acquisitions, expenditures, and maintenance performed on all assets. These records are vital for proper tax preparation and are used during yearly tax reporting and planning.

2.0 DEPRECIATION

- 2.1 The depreciation methods/lives for assets must be selected at the time the asset is first placed into service in order to ensure consistent financial reporting and tax compliance.

The Organization uses the straight-line method of depreciation.

The following represents a sample of the useful lives that the Organization may use for financial reporting purposes:

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor	20
Buildings		20 - 50
HVAC systems	Heating, ventilation, and air systems	10 - 20
Roofing		20
Interior construction	Leasehold improvements	20 - 25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, tanks	20
Machinery & tools	Shop & maintenance equipment,	3 - 15
Custodial equipment	Floor scrubbers, vacuums, other	7 - 15
Furniture & accessories	Classroom & other furniture	10 - 20
Business machines	Fax, duplicating & printing	3 - 10
Copiers		3 - 10
Communication equipment	Mobile, portable radios	3 - 7
Computer hardware	PCs, printers, network hardware	3 - 5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	5 - 10
Athletic equipment	Wrestling mats, weight machines	7 - 10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	5 - 10

- 2.2 The lowest life permitted by tax regulations for asset classes should be selected to optimize depreciation deductions.
- 2.3 Regardless of the depreciation rate required an Organization can elect to use a different method for financial statement purposes. Such method should be justified based on the expected useful life of the asset.
- 2.4 Depreciation will be recorded in the accounting system at the end of the fiscal year.

Revision History:

Revision n	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/12/15	Revision of capitalization policy relating to technology aggregate purchases	Oswaldo Diaz, CFO

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SOP # CSH101 Revision: 01

Prepared by: Central Office

Effective Date: 2/14/13 11/12/15

Approved by: BOD

Title: CSH101 CASH BOXES

Policy: Proper internal control should be maintained over funds received by cashiers or sales clerks of any type, even at fundraising events at all times.

Purpose: To identify the practices for cash box control, including cash receipts, special tender items, cash payouts and reconciliation with deposits.

Scope: All personnel that deal with the cash transactions.

Responsibilities:

Principal is responsible for safeguarding / verifying and controlling all cash assets at each school.

School Office Manager is responsible for ensuring the completeness and accuracy of all opening, closing and intermediate transactions.

School Office Manager is responsible for overseeing all event transactions.

Procedure:

1.0 CASH BOX/SAFE

1.1 Each fundraiser or individual collecting cash should collect cash for events and safeguard properly. Once all cash has been collected, this individual should submit the cash received to the School Office Manager as soon as possible for placement in the cash box. It is important to ensure that only one person has responsibility for collecting cash as to limit any opportunities for misappropriation.

1.2 All cash collected must be collected by the School Office Manager, counted together with the School Principal and one other person, and signed off by all three individuals that the cash count is accurate. The funds will then be safely secured until deposited by a designee of the School Office Manager.

1.3 If the cash balance at the end of day exceeds \$1,000, a bank deposit will need to be made the same day. Otherwise, all bank deposits will need to be made by the last business day of the week. At the end of the week there should be no more than \$50 left in the cash box for the following week.

1.4 Bank deposit documentation needs to be ~~mailed to the business office no later than the next Tuesday following the date of deposit.~~ emailed to EdTec, in PDF format, for entry into the general ledger on a weekly basis.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	7/24/15 <u>11/12/15</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz,</u> <u>Chief Financial</u> <u>Officer</u>

SOP # CSH103 Revision: 01
Effective Date: 2/14/13 ~~11/12/15~~

Prepared by: Central Office
Approved by: BOD

Title: CSH103 PROBLEM CHECKS

Problem: To save time in returning and following-up on unsigned, checks marked "payment in full", or returned by the bank. These checks should be processed as follows and deposited.

Purpose: To describe how these types of checks should be handled before depositing.

Scope: This procedure applies to all checks received by the Organization.

Responsibilities:

~~School Site Accountant~~ EdTec is responsible for processing all check transactions for each school.

Definitions: NSF. Non-Sufficient Funds or NSF checks are those that are returned from the bank because the balance in the checking account was not high enough to cover the check. The check is then stamped NSF or "insufficient funds", "uncollected funds", or maybe "account closed".

Procedure:

1.0 UNSIGNED CHECKS

1.1 The word "over" should be typed or written on the line where the signature would normally appear. On the back, type "Lack of Signature Guaranteed" and then add the Organization name, manager's name, title and signature.

Note: This indicates to the bank that the Organization will take back the check as a charge against its account in the event it isn't honored. In the event the check is not honored, the Office Manager should immediately follow-up with the issuer.

1.2 Continue processing the check.

2.0 PARTIAL PAYMENT CHECKS MARKED "PAYMENT IN FULL"

2.1 If there's no dispute as to the amount, a check tendered for less than the amount due and marked "payment in full" (or similar wording) can be cashed without jeopardizing the right to recover the balance. However, if there's a bona fide dispute as to the amount owing, the Organization runs the risk that payment will be deemed to have settled the disputed claim for the lesser amount.

2.2 To overcome any potential pitfall, the check should be endorsed with the following statement "Check is accepted without prejudice and with full reservation of all rights under section 1-207 of the UNIFORM COMMERCIAL CODE (see Reference A).

- 2.3 Continue processing the check as per procedure CSH102 CASH RECEIPTS AND DEPOSITS.
- 2.4 The Office Manager should then work with the customer to resolve collection of the remaining balance due.

3.0 RETURNED CHECKS

- 3.1 A returned check for less than \$100 or stamped "uncollected funds," should be re-deposited the following day, if the check is not already stamped, "Do Not Re-Deposit".
- 3.2 For returned checks in amounts greater than \$100, the bank that the check is drawn against should be telephoned to determine if the check amount will clear the customer's account. If sufficient funds exist the check should be re-deposited. If the check is very large, consider taking the check directly to the issuing bank for recovery.

Note: The customer's account number should be the second number series located at the bottom center of the check.

4.0 REDEPOSITED CHECKS

- 4.1 In the event a re-deposited check is returned or if sufficient funds do not exist to cover the check, the Office Manager should contact the issuer by phone to report the problem and discuss how the matter will be resolved. Then issue a formal notice CSH103 Ex1 BAD CHECK NOTICE via certified mail with a return receipt requested to ensure the customer understands the seriousness of the issue.
- 4.2 Whenever a check is re-deposited more than once a handling fee should be considered.

References:

A. UNIFORM COMMERCIAL CODE (UCC)

The "Uniform Commercial Code" or UCC began as a model for each state legislature to modify and adopt as law in that state. Therefore, the UCC is not the same in every state. Each state's court system can interpret the UCC differently thereby creating different case law in that state and producing different results. Business people cannot assume that the law will be exactly the same in each state. For more information see the Secretary of State for each State in question.

B. BAD CHECK LAW

Bad Checks are considered part of the UCC and therefore are a matter of state law enforcement. Section 3-104(2)(b) of the UCC, defines a check as "a draft drawn on a bank and payable on demand." Each state has a different "Bad Check Law" see UCC above.

Postdated check: since it is not payable on demand, most states believe that the giving of a post-dated check does not constitute a present fraud nor is it within the scope of the bad check laws.

Payments for COD or pre-existing debt: In most cases, NSF checks are not considered under the bad check law if they are used to pay a note payment or to pay an invoice that is on account. However, if the debtor provides a creditor with a NSF check for a COD order, then that act does fall within the bad check laws.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	7/24/15 <u>11/12/15</u>	<u>Inclusion of back-office provider process</u>	<u>Oswaldo Diaz,</u> <u>Chief Financial</u> <u>Officer</u>

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CSH103 Ex1 BAD CHECK NOTICE

Date:

CUSTOMER NAME
ADDRESS
CITY, STATE, ZIP

Dear Sir:

Payment on your Check No. _____ in the amount of \$ _____, presented to us on, {DAY MONTH YEAR} , has been returned by your bank and marked insufficient funds. We have re-deposited your check and attempted to collect on this check twice already.

We have verified with your bank that insufficient funds remain to clear this check. Therefore, we request that you replace this check with a certified check immediately.

Unless we receive the certified funds for the amount listed above within 15 days, we shall immediately begin appropriate legal action to protect our interest. Upon receipt of replacement funds we shall return the dishonored check.

Sincerely,

Office Manager
MAGNOLIA EDUCATION AND RESEARCH FOUNDATION

Certified Mail, Return Receipt Requested.

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SOP # CSH108 Revision: ~~01~~
Effective Date: ~~11/12/152/14/13~~

Prepared by: Central Office
Approved by: BOD

Title: CSH108 INTER-ACCOUNT BANK TRANSFERS

Policy: To ensure the accuracy of the Organization's bank account records by providing documentation of bank transfers.

Purpose: To outline the practices for preparation of an inter-account bank transfer

Scope: This applies to all bank accounts maintained by the Organization.

Responsibilities:

Chief Executive Officer is responsible for review and approval of all inter-account bank transfers

Chief Financial Officer is responsible for performing all inter-account bank transfers.

Background: Errors or omissions can be made to the Organization's bank account records due to the many cash transactions that occur. Therefore, it is necessary to authorize all inter-account bank transfers.

Procedure:

1.0 INTER-ACCOUNT BANK TRANSFER

1.1 ~~The Chief Financial Officer, Finance Manager, and/or the School Site Accountant~~ EdTec monitors the balances in the bank accounts to determine when there is a shortage or excess in the checking account. ~~The Finance Manager~~ EdTec recommends to the Chief Financial Officer when a transfer should be made to maximize the potential for earning interest or when funds are needed for processing payroll or other transfer needed. The Chief Financial Officer will determine when to make a transfer and in what amount. After the transfer has been initiated by the Chief Financial Officer, the Chief Executive Officer must log into the online banking system in order to complete the bank transfer process. A copy of the transfer is given to ~~the School Site Accountant~~ EdTec.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>7/29</u> 11/12/15	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz,</u> <u>Chief Financial</u> <u>Officer</u>

SOP # CSH109 Revision: ~~01~~
Effective Date: ~~2/14/13~~17/15~~11/12/15~~

Prepared by: Central Office
Approved by: BOD

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Title: CSH109 JOURNAL ENTRIES AND RECLASSIFICATION ENTRIES

Policy: To ensure the accuracy of the Organization's books and records by providing documentation of journal entries and reclassification entries. All journal entries shall be authorized in writing by the Finance Manager initialing or signing the entries.

Purpose: To outline the practices for preparation of journal entries and reclassification entries.

Scope: This applies to all accounting transactions performed by the Organization.

Responsibilities:

~~Finance Manager~~ The Chief Financial Officer is responsible for review and approval of all journal entries and reclassification entries.

~~School Site Accountant~~ EdTec is responsible for performing all journal entries and reclassification entries

Background: Journal entries can directly affect the presentation of financial statements. Therefore, it is necessary to authorize all journal and reclassification entries.

Procedure:

1.0 JOURNAL ENTRIES AND RECLASSIFICATION ENTRIES

1.1 The Chief Financial Officer, ~~Finance Manager, and the School Site Accountant~~ the Financial Analysts and EdTec monitor the balances in the accounting records of the Organization.

All general ledger entries including audit adjusting entries, reclassification entries, or other such journal entries shall be supported by journal vouchers or other documentation, which shall include a reasonable explanation of each entry.

Examples of such journal entries include:

1. Recording of noncash transactions
2. Corrections of posting errors
3. Non-recurring accruals of income and expenses

Certain journal entries, called recurring journal entries, occur in every accounting period. These entries may include, but are not limited to:

1. Depreciation of fixed assets

- 2. Amortization of prepaid expenses
- 3. Accruals of recurring expenses
- 4. Amortization of deferred revenue

Support for recurring journal entries shall be in the form of a schedule associated with the underlying asset or liability account or, in the case of short-term recurring journal entries or immaterial items, in the form of a journal voucher.

It is the policy of MERF that all journal entries not originating from subsidiary ledgers shall be authorized in writing by the ~~Finance Manager~~ Chief Financial Officer initialing or signing the entries.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	9/11/17 / <u>12/15</u>	<u>Revision of responsibilities</u>	<u>Oswaldo Diaz,</u> <u>Chief Financial</u> <u>Officer</u>

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SOP # CSH110 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH110 PETTY CASH PURCHASES

Policy: ~~The Organization does not permit the use of petty cash. Purchases of an emergency nature costing \$50 or less shall be allowed with the use of the Petty Cash Fund which shall be maintained at each school site in the custody of the Principal, Office Manager, or designee. The item or items to be purchased shall be verified as not available in the Organization's stock of supplies prior to the disbursement of cash.~~

Purpose: ~~To be able to make small emergency purchases through the use of a Petty Cash system.~~

Scope: ~~This applies to emergency transactions of less than \$50. all petty cash transactions.~~

Responsibilities:

~~Principal, Office Manager, or designee (Petty Cash Custodian) is responsible for review and approval of all petty cash transactions.~~

~~School Site Accountant is responsible for recording the transactions in the accounting records~~

Background: ~~Petty cash transactions are necessary from time to time in order to accommodate emergency needs for small purchases.~~

Procedure:

4.0 PETTY CASH TRANSACTIONS

~~1.1 The Organization does not permit the use of petty cash. The Petty Cash Custodian upon presentation with a request for Petty Cash that does not exceed \$50 performs the following (expended petty cash expenditures greater than \$50 is not allowed):~~

~~As assigned by the Petty Cash Custodian or performed by the Petty Cash Custodian, a staff member verifies if the item or items are available in the Organization's stock of supplies.~~

~~If the item or items are not available in the Organization's stock of supplies, obtain a Petty Cash Receipt/Form from the Accounting Department.~~

~~The Petty Cash Custodian certifies the petty cash expenditure if funded/budgeted and assigns a budget account number.~~

~~The Petty Cash Custodian or designee approves the request for petty cash expenditure and ensures that the transaction is complete.~~

Authorized staff, after making the purchase, turns into the Accounting Department the proof of purchase (vendor's invoice or receipt).

Once the petty cash balance falls below \$20, Accounting Department will issue a check to the Petty Cash Custodian for the outstanding purchases. The Petty Cash Custodian will then replenish the petty cash.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>7/3011/12/15</u>	<u>Removal of petty cash use</u>	<u>Oswaldo Diaz,</u> <u>Chief Financial</u> <u>Officer</u>

SOP # CSH112 Revision: 01
Effective Date: 2/14/13 ~~11/12/15~~

Prepared by: Central Office
Approved by: BOD

Title: CSH112 INTERCOMPANY RECEIVABLES AND PAYABLES (DUE TO/DUE FROM)

Policy: To ensure that intercompany transactions between individual charter schools and the central office are processed correctly

Purpose: To outline the practices for intercompany transactions between individual charter schools and the central office

Scope: This applies to all charter schools operated by the Organization.

Responsibilities:

Chief Financial Officer is responsible for performing the intercompany transactions with approval from the Board of Directors.

~~School Site Accountant~~ The Finance Department is responsible for alerting EdTec regarding recording intercompany transactions. EdTec is responsible for recording it into the ~~into~~ accounting system, and ensuring accuracy of fiscal year-end balances.

Background: Charter schools are highly dependent on government funding to operate. Government cuts and funding deferrals can result in cash shortages for schools. Therefore the need arises to allocate resources from other schools to cover any shortfall. It is necessary to correctly record transactions between the charter schools and the central office in order to properly determine each school's receivable/liability.

Procedure:

1.0 INTERCOMPANY TRANSACTIONS

- 1.1 The Chief Financial Officer, with the support of the Finance Department and EdTec, and Finance Manager monitors cash balances daily for the charter schools. When a charter school realizes a need for funds, the Chief Financial Officer will assess resource levels for the other schools as well as the central office. If the central office does not have sufficient funds to advance to the charter school requestor, at the discretion of the Chief Financial Officer, the Chief Financial Officer may transfer funds from a charter school with surplus funds into the central office. The Chief Financial Officer may then transfer funds to the charter school requestor from the central office. For policy regarding inter-account bank transfers, refer to **CSH108 INTER-ACCOUNT BANK TRANSFERS**.
- 1.2 At the end of the fiscal year, each school's receivable or payable account will be reconciled in accordance with **G&A105 PERIOD-END REVIEW & CLOSING**. Once balances are reconciled, an agreement is prepared at the end of

the fiscal year between each school and the central office to document the amount owed and repayment terms.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	10/5 11/12/15	<u>Revision of responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

SOP # CSH113 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: CSH113 FINANCIAL RESERVES

Policy: To ensure each charter school maintains a fund reserve in order to protect itself from unforeseen revenue shortfalls or unexpected expenditures.

Purpose: To describe responsibilities and monitoring procedures over each charter school's fund reserve

Scope: This applies to all charter schools operated by the Organization.

Responsibilities:

~~School Site Accountant~~ EdTec is responsible for day to day monitoring of charter school cash accounts and ensuring their accuracy.

Chief Financial Officer is responsible for oversight over charter school cash accounts as to ensure that required fund reserve amounts are met.

Background: California regulations state that the following reserve amounts must be maintained:

- Greater of 5% of prior year operational expenditures or \$55,000 for districts with 0-300 ADA
- Greater of 4% of prior year operational expenditures or \$55,000 for districts with 301-1,000 ADA

Procedure:

1.0 FUND RESERVE BALANCES

1.1 ~~The School Site Accountant~~ EdTec will monitor the cash balance for each charter school to ensure its accuracy and to be able to project future amounts. This will be accomplished through timely bank reconciliations and regular budget vs. actual comparisons. This process is critical to quickly detect any potential cash shortages so expenditures can be modified or more resources can be requested.

1.2 If the required fund reserve amount for a charter school cannot be met, the Chief Financial Officer with the support of EdTec will need to determine where cash can be derived from in order to restore the fund balance. This can come from central office funds or from another charter school with surplus funds. See CSH112 INTERCOMPANY RECEIVABLES AND PAYABLES (DUE TO/DUE FROM) for this procedure.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>7/31/12/15</u>	<u>Inclusion of back-office service processes</u>	<u>Oswaldo Diaz, CFO</u>

SOP # G&A103 Revision: 01
Effective Date: 2/14/139/1711/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A103 TRAVEL AND ENTERTAINMENT

Policy: All reservations required for business travel and entertainment will be made through the Purchase Manager or designated staff. Expenses are to be within established Organization guidelines and will be reimbursed with proper documentation. Employees are expected to spend the Organization's money as carefully and judiciously as they would their own.

The Organization recognizes that employees who travel far from home to represent the Organization's business interests must forego their living accommodations and may forfeit personal time. Accordingly, the Organization will make efforts to provide comfortable and secure accommodations for lodging, meals and travel for employees. However, these items are not intended to be perquisites and the Organization reserves the right to deny reimbursement of expenses that are considered lavish or extravagant.

Purpose: To provide guidelines for travel and entertainment expenses as they were actually spent, account for all advances promptly and accurately and to communicate the procedures for reimbursement.

Scope: This procedure applies to all departments and individuals who travel or entertain for the Organization.

Responsibilities:

Responsible Party: The individual employee and/or the Purchase Manager

- When the Purchase Manager does not make travel arrangements, each employee is responsible for making arrangements needed for business travel.
- The Purchase Manager may make travel arrangements when requested, provided that arrangements are made at least 15 days in advance.

~~Accounting~~ The Finance Department will receive and review the expense report documentation and send to EdTec to process necessary employee reimbursement. (See PUR106, Reimbursements, for more detailed information.)

Procedure:

1.0 TRAVEL ARRANGEMENTS

1.1 All arrangements required for business travel are to be made individually or through the Purchase Manager. When possible, the Purchase Manager can solicit better corporate discounts and rates for hotels, airlines, car rental agencies and travel agencies. Employees benefit because they do not have to spend their own time comparing rates and making their own arrangements. If making your own arrangements, the employee must find the best possible travel pricing.

1.2 For maximum savings on airfares, this form should always be completed at least 15 days in advance unless an emergency trip is required.

1.3 It is preferable that all employees travel during non-working hours to maximize efficiency. The Purchase Manager will make arrangements for the trip as required and will return a travel itinerary and any tickets or reservation forms to the employee.

1.4 **Cash Advances** - To help ensure accurate and timely expense report preparation and reduce the additional paperwork required to process and track Cash Advances, the Organization generally **discourages** cash advances unless special circumstances apply. Employees are encouraged to use credit cards with a grace period to provide float time between incurring the expense and receiving reimbursement from the Organization.

If an employee requires a cash advance, a formal request must be made through CoolSIS as a check request. The advance request will then be forwarded to accounting for processing upon approval. Travel advance amounts are approved on an as needed basis.

When a cash advance is received, the employee will reduce their expense reimbursement by the amount of the cash advance. In the case where the cash advance exceeds the expenses for the report submitted, the remaining cash must be turned into the accounting department with the expense report. Amounts owed the Organization cannot be carried forward to future expense reports. Any advance outstanding will be deducted from the employee's paycheck.

1.5 **Direct Billings** - Direct billings to the Organization from motels, restaurants, etc. are not permitted unless previously authorized.

2.0 EXPENSE GUIDELINES

2.1 Air Travel - Airline reservations are based on the following criteria:

- Expediency: Getting the employee to their destination in an expedient way. (Direct flights when possible or connecting flights if necessary for faster flight schedules).
- Cost: Employees will fly coach class unless extenuating circumstances apply.
- Air Carrier: An employee's preferred airline can be utilized as long as expediency and cost factors are equal. In most cases, airfare will be directly billed to the Organization's credit card account.

On occasion, employees may have no alternative but to book their own flight. If this is the case, employees must use regularly scheduled airlines and obtain the lowest (discount) fare available. This may mean that employees will fly at times that are not always the most convenient for them.

2.2 Lodging - Lodging arrangements are based on value, convenience for the traveler and according to what is usual and customary Organization guide lines.

Whenever multiple employees are traveling to the same location, employees will be required to share accommodations if possible (i.e. male/male or female/female). Lodging accommodations will then be made for double rooms accordingly. If an employee is accompanied by a non-employee such as family or a friend, and therefore requires

separate accommodations, the employee will be responsible for payment of any excess lodging accommodations.

- 2.3 Meals - Employees on Organization business where an overnight stay is not required will be reimbursed for the actual cost of their lunch and dinner meals not to exceed \$25 and receipts are required. Any amounts spent in excess of \$25 will not be reimbursed. The cost of meals should be reasonably priced based on the locality.

Employees who are required to stay overnight for the Organization's business are allowed a per-diem rate of \$35 per day and receipts are not required.

Officers may include reimbursement of actual guest meals for the business of the Organization at their discretion. When officers are traveling under per-diem meal arrangements, and guest meals are paid for, that day's per-diem amount must be adjusted downward by \$15 and cannot be claimed.

See form PUR104 Accounts Payable and Cash Disbursements and PUR 106 Reimbursements for additional information regarding Meals.

- 2.4 Car Rentals – When possible, advance arrangements should be made by the Purchase Manager if a car is required at the destination, otherwise the employee is required to make their own car rental arrangements. Vehicle selection will be based upon the most cost-effective class that satisfies requirements for the employee(s) and any demonstration equipment.

Supplemental auto insurance coverage offered by car rental agencies must be purchased and will be reimbursed.

- 2.5 Personal Vehicles - An employee who uses their own automobile for business will be reimbursed at 36 cents a mile. The employee must provide on the expense report, documentation including dates, miles traveled and purpose of each trip.

The Organization assumes no responsibility for personal automobiles used for business. Further, any parking or speeding violation is the sole responsibility of the employee and each employee must have valid minimum automobile liability insurance as required by state law.

- 2.6 Telephone - Telephone charges from the hotel are not allowed unless it is an emergency.

- 2.7 Entertainment - Entertainment expenses are not allowed.

- 2.8 Miscellaneous Expenses - Any additional business expenses that are not categorized above should be listed under miscellaneous expenses and documented with all pertinent information to substantiate the expense.

- 2.9 Non-Reimbursable Expenses - Some expenses are not considered valid business expenses by the Organization, yet may be incurred for the convenience of the traveling individual. Since these are not expenses for the business then they are not reimbursable. (The following can be used as a guide of expenses, which are not reimbursable)

Examples include:

- Airline or travel insurance

- Airline or travel lounge clubs
- Shoe shine or Dry-cleaning (except for extended travel beyond 5 days)
- Movies or personal entertainment
- Books, magazines or newspapers
- Theft or loss of personal property
- Doctor bills, prescriptions, or other medical services
- Parking tickets, traffic tickets or Car towing if illegally parked
- Health club memberships
- Baby sitter or Pet care fees
- Barbers and Hairdressers

3.0 EXPENSE REPORT PREPARATION AND REIMBURSEMENT

3.1 All business reimbursement expenditures incurred by employees of the Organization are reimbursed through CoolSIS. Reimbursement receipts must be submitted monthly and any receipt that is older than 60 days will not be reimbursed at the discretion of the Chief Financial Officer.

Expense report forms must be filled out completely. Required original receipts for items charged must accompany all reimbursement documentation as well as uploaded into CoolSIS. Any questions regarding completion of the report should be directed to the employee's supervisor or the accounting department.

Upon completion, the expense report along with all attachments should be submitted to the employee's appropriate supervisor in CoolSIS for approval. After approval, the expense report is submitted to the accounting department for processing and reimbursement. In order to expedite reimbursement, the employee should ensure that the report is completed properly, required documentation is attached, proper authorization is obtained, and any unusual items properly explained and documented.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>9/17/11/12/15</u>	<u>Inclusion of back-office provider process</u>	<u>Oswaldo Diaz, CFO</u>

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SOP # G&A104 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD/

Title: G&A104 MANAGEMENT REPORTS

Policy: ~~School Site Accountants~~ EdTec will prepare summary reports of vital operating statistics for the Organization, including revenues, current debt, operating cash, accounts receivable and projected short-term cash flows. These reports are to be prepared and are to supplement detailed monthly and quarterly financial reports and are to be used for timely "hands-on" management.

Purpose: To provide the format and content requirements for preparation of the Financial Reports.

Scope: The procedure applies to ~~Ed+Tec and the Finance and Accounting~~ personnel required for preparation of these reports.

Responsibilities:

~~School Site Accountants~~ EdTec will be responsible for assuring effective and informative ~~internal-reporting for the Organization, within their departments and between departments.~~

Finance Manager is responsible for preparing and maintaining a summary of all reports.

Procedure:

1.0 PREPARATION GUIDELINES

1.1 The logistics of preparing financial summaries will vary, depending on the accounting system used and the needs of the Organization. Most computerized systems offer an "executive summary" screen of critical financial information. The objective is to provide a quick recap of the financial status of the Organization that should lead to plans for corrective actions or adjustments. Bi-monthly reports should be considered "exception reports" that provide management the necessary information to understand whether the Organization is progressing as planned.

The timing of reports is critical to the effective operation of the Organization. Reports should be prepared and distributed in a timely fashion following the end of the reporting period.

To improve readability, simplify preparation, and allow users to focus on the materiality of the data, all reporting should be rounded and/or plugged to the nearest \$1 increments when possible. Note: larger companies may wish to focus on \$100 or more increments.

1.2 If details are not available then use control totals and note on the report any estimates. Follow up with actual results as soon as practical. The preparer should

keep in mind that the objective of the report is to provide a quick recap of the financial status of the Organization and not a time-consuming detailed financial analysis. Leave exhausting details in the books for later analysis as required.

- 1.3 Make statements easy to read. Use the following style guidelines to improve readability:
- Use 8-1/2 x 11 paper
 - Use a lot of “white space” on the page
 - Limit columns of figures to three columns
 - Omit cents and use thousands of dollars as appropriate. Indicate on the report the units used in a legend.
 - Indicate only significant expenses and group remaining items
 - The preparer should date (month/day/year) and initial all reports.

1.4 ~~The preparer should file a copy of repetitive reports in a 3 ring binder~~ EdTec will file a copy of repetitive reports for later retrieval, auditing or trend analysis.

~~1.5 While current QuickBooks accounting systems may automatically provide many types of information, it is helpful to review the manual exhibits provided to understand the mechanism for generating this type of information.~~

~~1.6~~ 1.5 The Finance Manager will prepare and maintain a summary of all reporting. The summary will include the following categories:

- Department or Functional Area
- Name of Report
- Purpose of the Report
- Frequency of Preparation
- Distribution of Copies

~~1.7~~ 1.6 Updates of the summary will be issued to all Organization officers and department managers. Managers should use the summary to determine what information is being compiled and the format and distribution of reporting. Many times duplicate or redundant information gathering, reporting and filing can be avoided by merely changing the format or distribution of existing reports.

2.0 FINANCIAL REPORTS

2.1 The Chief Financial Officer and Finance Manager should review accounting program financial reports on a regular basis.

3.0 CASH FLOW REPORT

3.1 The Cash Flow Report represents a summary of the cash flowing through the Organization in the near term and identifies any potential shortfall that might occur in the near future before it occurs. The Cash Flow Report should be reviewed quarterly by the Chief Financial Officer. This report supplements the

detailed monthly and quarterly financial statement reports and provides a quick look at the cash performance of the Organization.

- 3.2 The Cash Flow Report should include projected operating cash balances for each week with estimated cash receipts by major classifications and projected disbursements by major account classifications.
- 3.3 ~~The Finance Manager should~~ EdTec will notify the Chief Financial Officer of any shortfall so that the Organization may determine alternative courses of action to rectify the situation.

4.0 BUDGET VS. ACTUAL REPORT

- 4.1 The Budget vs. Actual Report represents a comparison of planned operating expenses to the actual expenses incurred for the period. The objective is to highlight results against plan, percentages and variances and thus provide a basis for management decisions. The Budget vs. Actual Report is prepared and maintained by ~~the Accounting department~~ EdTec on a monthly basis.
- 4.2 The Budget vs. actual report should be divided into three main components. 1) Current period budget, actual and variance totals, 2) a description of the major income and expense account classifications similar to the financial statements, and 3) the Current year-to-date budget, actual and variance totals. The percent column should be used to list each line as a percentage of total revenues. Alternatively, it can also represent the percentage variance or change from last period.

5.0 FINANCIAL STATEMENTS

- 5.1 ~~The Chief Financial Officer is responsible for maintaining current Financial Statements on a bi-monthly basis.~~ The Chief Financial Officer, Chief Executive Officer, and the Board of Directors should review the Financial Statements ~~bi-~~ bi- monthly for each board meeting. This report ~~is-~~ provides one indication of the performance of the Organization.
- 5.2 The Financial Statements typically are comprised of three main parts: The Statement of Financial Position, Statement of Activities, and the Statement of Cash Flows (Statement of Cash Flows quarterly).

The Statement of Financial Position lists all of the Organization's assets (cash, receivables, deposits, inventory, equipment, intellectual property, etc.), liabilities (debt, lease obligations, etc) and net assets. It identifies the assets (which are "the business") and the financiers, or debt and equity holders and the relationship between the two.

The Statement of Activities represents the Organization's operational sources of cash - revenue - or uses - business expenses and is typically divided into operating periods that represent months, quarters or years of operations. It identifies the profitability of the Organization as a function of the accounting decisions.

The Statement of Cash Flows is the difference between the Statement of Financial Position sources and uses of cash and the Statement of Activities sources and uses of cash. This difference assists in identifying the health of the Organization's operations. It identifies whether the Organization is producing cash or consuming cash and at what rate and from what sources.

- 5.3 The Financial Statements should be produced after the close of the Organization's period (see procedure G&A105 PERIOD-END REVIEW & CLOSING). The final Financial Statements form the basis for the Organization's formal presentations to the Board of Directors, or other stakeholders such as banks, outside agencies, or creditors in accordance with procedure G&A109 CONFIDENTIAL INFORMATION RELEASE.

References:

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

Since 1973, the Financial Accounting Standards Board (FASB www.fasb.org) has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission (Financial Reporting Release No. 1, Section 101) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979). FASB pronouncements are the primary sources of GAAP.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

A collection of accounting principles. Typically includes the most recent developments of all generally accepted accounting principles (GAAP) as derived or collected from various technical pronouncements. Sources include FASB statements, interpretations, technical bulletins and concepts; American Institute of CPAs (AICPA); Accounting Principles Board opinions, accounting research bulletins, and position statements; and Securities and Exchange (SEC) financial reporting releases.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>7/24/11/12/15</u>	<u>Revision of responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

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SOP # G&A105 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A105 PERIOD-END REVIEW & CLOSING

Policy: An orderly, timely and comprehensive review of all general ledger accounts should be performed or directed by the Chief Financial Officer to ensure an accurate representation of the company's financial statements. These practices are aimed at proving that the financial accounts are accurate, and if not, are properly adjusted to make them accurate, prior to closing.

Purpose: To provide a general overview of the process to be completed for reviewing the accounting records at year-end or any particular month-end prior to closing.

Scope: These practices apply to all accounts. Typically, all financial accounts are reviewed and then closed out as of the company's year-end. Consequently, the procedures that follow are discussed in reference to year-end review. However, a sub-set of these procedures is also applicable to month-end reviews. Month-end procedures are identified near the end of this module.

Responsibilities:

~~Finance Manager~~ EdTec is responsible for creating and reviewing all period-end activities to ensure the period-end financial statements accurately reflect the results of the Organization's activities. ~~The Finance Manager should be familiar with the specific software procedures for keeping the prior year open until a~~ All final closing adjustments ~~have been~~ should be made and approved by the Chief Financial Officer.

~~School Site Accountant~~ The Financial Analysts ~~are~~ is responsible for ~~helping gathering~~ all documentation required to complete the period-end closing and ~~completing all ledger adjustments.~~

Definition: "Review" refers to the procedures involved in examining the financial statement balances at any given period to ascertain their accuracy.

"Closing" is the process of advancing from one month or period to the next or from one year to the next. In most computerized accounting systems the periods are closed by executing a menu command. Monthly closings usually involve nothing more than entering the next month and responding to the program's suggestion to print various month-end reports or inserting a password such that transactions cannot be entered back in time from a specific point. Even after moving to the next month, many accounting systems allow the user to return to previous months to enter or edit transactions.

The yearly closing is more rigorous since it involves re-setting all Statement of Activities accounts to zero. Once a year is "closed", some

accounting systems do not allow the user to go back or open a closed period to make changes. So be careful, once the period is closed, it is official and any adjustments that are required will need to be made in the current or next open period. The prior year should be password protected once it is closed to prohibit transactions being posted in the prior year.

Background: The financial statement is the most important management tool for the Chief Financial Officer. It is comprised of the statement of financial position and the statement of activities.

The statement of financial position accounts are measured at a moment in time, like a snapshot. They reflect a total of items at any particular time: a total of cash, accounts receivable, inventory, fixed assets, accounts payable, debts, and net assets retained in the company.

The statement of activities accounts are measured over a period of time, like a movie. They represent the sum total of transactions: sales, purchases, payroll, etc. The difference in sales less all related expenses equals the net income or loss for the period of time being measured.

Accounting is a double-entry system. Thus, each business transaction has two equal sides. For example, paying an expense decreases cash on the statement of financial position and increases an expense on the statement of activities. Getting paid for a service, fundraising, or grant revenue increases cash on the statement of financial position and increases revenue on the statement of activities. Because of this interdependency, the accuracy of the statement of activities is dependent upon the accuracy of the statement of financial position.

It is easier to prove the accuracy of the statement of financial position. Adding up how much each customer owes the store or reconciling cash to the bank statement is a much simpler process than attempting to add up each individual sales transaction on the statement of activities. For this reason, more time is actually spent on proving the accuracy of the statement of financial position.

Once the statement of financial position is proven, the statement of activities, in total, must be right! The only errors would be misclassifications, (i.e.: the phone bill could be incorrectly posted to the rent expense account). The accounts of the statement of activities are generally reviewed for reasonableness by comparing amounts to prior periods and analyzing ratios. However, the accounts of the statement of financial position are compared to actual totals of items counted (cash, receivables, inventory, payables, fixed assets, etc.).

The Chief Financial Officer or Finance Manager is encouraged to understand these concepts and to take the initiative to keep the financial statements as accurate as possible, regardless of how much an outside accounting service is utilized.

Procedure:

1.0 CLOSINGS PREPARATIONS

- 1.1 The steps to the actual period-end are not all performed on the exact end of the period. Some accounts cannot be "settled", proved, or reconciled until all third party information is received.

Bank statements from banks usually don't arrive until a couple weeks after a month end. And, many final payroll tax payments and yearly reconciliation forms aren't due until the end of the following month. Also needed are final bills from vendors, credit card statements, month end statements from vendors and year-end loan statements from banks and other financial institutions. All of this information is needed before a business can truly "close its books".

Fortunately, most accounting systems allow a business to continue posting transactions into subsequent months of the new year, without actually "closing" the previous year-end. The Finance Manager should be familiar with the specific software procedures for keeping the prior year open until all final closing adjustments have been made. It's not unusual for businesses to continue processing transactions for almost the entire next year before closing the prior year.

- 1.2 Compile all period-end documents in preparation for closing the accounting period. These documents include:

- Bank statements to all accounts
- Final payroll and tax amounts
- All final bills and month-end statements from vendors
- All credit card statements
- All year-end loan or debt statements
- All asset acquisition and disposition transactions
- All program costs

- 1.3 Fewer procedures are performed at month-end dates. At a minimum the following procedures would be expected for monthly closings:

- Reconcile all bank accounts
- Print and compare the aged receivables and payables to the general ledger. Make appropriate adjustments to balance the accounts.
- Review all Statement of Financial Position and Statement of Activities accounts for completeness
- Retain all above reports in a monthly summary file.

2.0 STATEMENT OF FINANCIAL POSITION: ASSETS

- 2.1 Prepare a year-end closing file to store all reconciliation documents and printed reports as described below.
- 2.2 **Cash accounts** - prepare the bank reconciliations for year-end balances per the bank statement to the balance per books for each account. The year-end reconciliation is especially important for preparing the final year-end financial statements to ensure that it is completely accurate.
- Show origination dates and description of each reconciling item. Prepare the necessary journal entries to adjust to the reconciliations. Prepare a summary of all petty cash and change drawer funds. Totals must agree with the general ledger. File all reconciliation reports in the year-end closing file.
- 2.3 **Accounts Receivable** – Print a detailed aged accounts receivable report and then reconciles it to the General Ledger. This can be prepared as soon as all accounts receivable are calculated as of year-end. Calculate possible allowances for un-collectible accounts. Adjust prior allowances to calculated amount. Write off any un-locatable differences. Retain a complete copy of the detailed accounts receivable, along with any reconciling adjustments in the year-end closing file.
- 2.4 **Inventory** – Supplies inventory may be small but should be evaluated periodically for cost increases.
- 2.5 **Capital Assets** - Update the detailed schedule of fixed assets with any additions and deletions and reconcile to the general ledger balances.
- 2.6 **Other Assets** - Other assets include utility or real estate deposits, prepaid insurance, advances to employees, and intangibles like store pre-opening costs. These should all be identified and documented. For example, a copy of the initial deposit with the utility company, or a list of the facility pre-opening costs with a schedule showing how much of those costs are to be amortized each year. File copies of these documents in the year-end closing file.

3.0 STATEMENT OF FINANCIAL POSITION: LIABILITIES AND NET ASSETS

- 3.1 Liabilities are shown as the amount to be paid in the subsequent period. If in doubt, record the liability.
- 3.2 **Accounts Payable** - Print a detailed aged accounts payable report and reconcile it to the general ledger. This is generally completed 2 to 4 weeks after the year-end to ensure that all vendor invoices relating to services and merchandise purchased have been received and entered.
- Compare all month-end vendor statements to balances per accounts payable and investigate any differences. Consider making adjustments for any significant unrecorded liabilities such as work started prior to year-end, but not yet billed by the supplier. Retain a complete copy of the accounts payable detail, along with any reconciling adjustments, in the year-end closing file.
- 3.3 **Accrued Expenses** - Review accruals for sales tax, payroll, payroll tax, payroll deductions payable, interest expense on short-term borrowings and long-term debt.
- 3.4 **Loan Debt** - Verify recorded accuracy of debt by ensuring the general ledger balances agree to year-end statements from lending institutions. Save all year-end statements in year-end closing file.
- 3.5 **Contingent Liabilities and Commitments** - Prepare a schedule of any outstanding litigation and possible losses. Prepare a schedule of all long-term rental agreements with amounts due by year for the next five years. Retain these schedules in the year-end closing file.
- 3.6 **Net Assets** - Record any changes in the Prior Period Adjustment category but ordinarily this account does not have any transactions directly posted to it.

4.0 STATEMENT OF ACTIVITIES: REVENUE & SUPPORT

- 4.1 **Revenue & Support** – Review all program billings, reimbursement billings, and any other donations.
- 4.2 Additionally, the Chief Financial Officer should periodically review revenue trends, cost associated with revenues, variable expenses and fixed expenses. Look for patterns, new trends, seasonal variances, or profitable emerging products that may indicate changes in customer or program behavior.
- 4.3 The Chief Financial Officer and/or Finance Manager should analytically review the revenue reports and explain all variances.

5.0 STATEMENT OF ACTIVITIES: EXPENSES

- 5.1 Each expense total should be compared to expense total from the year before (and budgets if applicable). Attempt to explain any unusual variances. Some expense items are directly related to asset or liability accounts and can be reconciled in conjunction with the related Statement of Financial Position account.

- 5.2 **Program Costs** - A detailed report should be produced of program costs and analyzed in relation to the associated revenues and to prior periods.
- 5.3 **Payroll** - At year-end, the various payroll expense accounts should agree to total gross payroll per payroll reports. Account for all deductions for W-3 reported to the Social Security Administration, 1099s for vendors, as well as FICA and other taxes reported accordingly.
- 5.4 **Bad Debt Expense** - Prepare a list of all accounts written off during the year. Note specifically any addition to the allowance for uncollectible accounts.
- 5.5 **Interest Expense** - Prepare a schedule of interest expense by source. Reconcile amounts to short-term borrowings and long-term debt.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>8/4/11/1215</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz, CFO</u>

SOP # G&A107 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A107 TAXES AND INSURANCE

Policy: To ensure compliance with all Federal, state, local, and other regulatory taxation requirements

Purpose: To outline the general areas of taxation. To be used as a checklist or guide in complying with tax requirements related to each specific location and organizational structure.

Scope: This statement applies to the business activities of the company.

Responsibilities:

~~School Site Accountant~~ The Financial Analysts are responsible for determining all tax liabilities and fees, and the dates due

EdTec is responsible, ~~and~~ for ensuring the timely payment of all tax liabilities and fees.~~each.~~

Procedure:

1.0 ORGANIZATION FEES AND TAXES

1.1 Fees and taxes will vary depending on the legal structure of the business activity. The Organization is a Not-For-Profit organization; however, there may be from time to time revenue earned that is taxable as if the Organization were a For-Profit entity and those profits would be considered Unrelated Business Income and subject to tax.

1.2 The School Site Accountant should check with the secretary of state, registry of charitable trusts, the IRS, and any other agency that non-profit organizations may pay fees with in order to ensure all fees are paid in a timely manner. Failure to pay such fees can result in the loss of the company's legal status or structure.

2.0 UNRELATED BUSINESS INCOME TAX

2.1 Activities conducted not related to the exempt purpose of the Organization can be subject to unrelated business income tax.

3.0 PAYROLL FEES AND TAXES

3.1 The Federal and state governments charge an **unemployment tax**, based on a specified minimum amount of each worker's salary level. For most states, the rate can change from business to business depending on the Company's history of claims and the economic health of the state in which the Company is located.

3.2 **Worker's compensation insurance** may be imposed by a state like a tax. It can also vary based on the amount of payroll, past history of worker's compensation claims, and the type of work in which the business is engaged. This coverage is generally arranged through an insurance company.

- 3.3 At the Federal level, payroll is taxed at a uniform rate for **Social Security** and **Medicare**. These two taxes are evenly shared between the company and the employee up to certain levels of income. Additionally, personal income taxes, based on the employee's compensation, must be **withheld** from the employee's earnings and remitted to the government by the company, along with the company's and employee's share of **Social Security** and **Medicare** taxes.
- 3.4 In California, a portion of the employee's compensation is also **withheld** and remitted to the state by the Organization.
- 3.5 Other payroll withholdings, mandated by Federal or state requirements, may require wage garnishments to fulfill a bankruptcy edict or childcare payment requirement.
- 3.6 The Treasury Department and or the Internal Revenue Service (IRS) collects all monies due the Federal Government. Technically, withholding amounts deducted from a paycheck are considered the government's money and the business owner is temporarily holding the money, in deposit, until it can be transferred to the government. Any failure to pay in a timely fashion is considered a serious matter by the IRS and will not be ignored.

The IRS will impose a penalty for failing to pay the required withholding amounts on time. In addition, interest will be charged until the amount is paid. Both interest and penalties imposed by the IRS can add up significantly. Therefore, the IRS is not a good source to "borrow" money from if cash is tight.

Note: Money due the IRS is NOT dischargeable in bankruptcy.

- 3.7 Certain local municipalities charge an **Earnings tax** based on payroll, income, assets, stock options granted or any combination. Check with the city clerk for details.

4.0 EXCISE TAXES

- 4.1 There are many different federal government taxes or fees imposed on the commerce of different types of businesses. The following represents the most common.
- 4.2 Penalties and interest may result from any of the following acts.
- Failing to collect and pay over tax as the collecting agent.
 - Failing to keep adequate records.
 - Failing to file returns.
 - Failing to pay taxes.
 - Filing returns late.
 - Filing false or fraudulent returns.
 - Paying taxes late.
 - Failing to make deposits.

- Depositing taxes late.
- Making false statements relating to tax.
- Failing to register.

5.0 OTHER TAXES AND CREDITS

- 5.1 Many state, counties, and cities impose **real estate taxes**. The Organization should ensure that where possible the Organization has applied for exemption from property taxes as a non-profit organization.
- 5.3 **Sales Taxes** – at this time, the Organization does not sell any products and is not subject to sales tax.

6.0 TAX PAYMENTS

- 6.1 The School Site Accountant should create and maintain a detailed tax calendar as a guide, which provides a sample guide to some of the most common taxes. The guide should serve a reminder of tax due dates.

7.0 INSURANCE

- 7.1 Insurance needs for a business can be grouped in two broad categories, those that are directed at safeguarding assets and those that are furnished as employee benefits. Employee benefit insurance such as, health insurance, disability insurance and key man life insurance, should be considered in light of its importance in the entire employee compensation mix and in light of the personal needs of the company's owner(s).
- 7.2 Insurance used for safeguarding company's assets includes: property, casualty, key-man and professional liability insurance, as well as auto insurance, errors and omissions, directors' liability or business interruption insurance. The levels and terms of these policies should be determined based upon the value of the assets at risk and creditor or state and local requirements.
- 7.3 Business with a lot of employees should consider employment practices liability insurance covers businesses against some types of employee lawsuits including:
- Sexual harassment
 - Discrimination
 - Wrongful termination
 - Breach of employment contract
 - Negligent evaluation
 - Failure to employ or promote
 - Wrongful discipline
 - Deprivation of career opportunity

- Wrongful infliction of emotional distress
- Mismanagement of employee benefit plans

7.4 Certificates of insurance may be required to be on file or on display depending on governmental requirements. It is important to consider that the insurance policy is a contract. Each year's policy should be saved in a permanent file. A product liability suit can go back many years, and if the potential claim is significant, the protection afforded by the prior year's insurance coverage will be improved if that year's policy has been saved.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>8/411/12/15</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz, CFO</u>

SOP # G&A115 Revision: 01
Effective Date: 2/14/13 ~~11/12/15~~

Prepared by: Central Office
Approved by: BOD

Title: G&A115 ACCRUED LIABILITIES

Policy: The Organization will establish a list of commonly incurred expenses that may require accrual at the end of the fiscal year accounting period.

Purpose: The purpose of this policy is to properly recognize and accrue liabilities.

Scope: This applies to potential liabilities.

Responsibilities:

~~School Site Accountant~~ ~~The Finance Department~~ ~~cial Analysts~~ with the support of EdTec ~~is~~ are responsible for ensuring that the accrued liabilities are properly accounted for.

Background: Accrued liabilities are liabilities that have been incurred such as vacation pay but have not been paid.

Procedure:

1.0 Accrued Liabilities

1.1 Some of the expenses that shall be accrued by MERF at the end of an accounting period are:

- Salaries and wages
- Payroll taxes
- Vacation pay/Compensated absences
- Rent
- Interest on notes payable
- Insurance premiums
- Audit fees
- Charter Management Organization fees

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>10/5/12/15</u>	<u>Inclusion of back-office service provider</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

SOP # G&A116 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A116 NOTES PAYABLE

Policy: It is the policy of MERF to maintain a schedule of all notes payable, mortgage obligations, lines of credit, and other financing arrangements. This schedule shall be based on the underlying loan documents.

Purpose: The purpose of this policy is to properly track and recognize all notes payable and other similar obligations.

Scope: This applies to notes, loans, lines of credit, and obligations of the Organization.

Responsibilities:

~~School Site Accountant~~ EdTec is responsible for ensuring that all notes, loans, and other similar obligations are properly accounted for.

Background: Properly tracking and monitoring long term debt such as loans is important such that as payments become due, the Organization has sufficient cash flow to honor the obligation.

Procedure:

1.0 NOTES PAYABLE

1.1 Prepare a schedule that shall be based on the underlying loan documents and shall include all of the following information:

1. Name and address of lender
2. Date of agreement or renewal/extension
3. Total amount of debt or available credit
4. Amounts and dates borrowed
5. Description of collateral, if any
6. Interest rate
7. Repayment terms
8. Maturity date
9. Address to which payments should be sent
10. Contact person at lender
11. Loan covenants, if applicable

2.0 ACCOUNTING AND CLASSIFICATION

2.1 An amortization schedule shall be maintained for each note payable. Based upon the amortization schedule, the principal portion of payments due with the next

year shall be classified as a current liability in the statements of financial position of MERF. The principal portion of payments due beyond one year shall be classified as long-term/non-current liabilities in the statements of financial position.

- 2.2 Demand notes and any other notes without established repayment dates shall always be classified as current liabilities.

Unpaid interest expense shall be accrued as a liability at the end of each accounting period.

- 2.3 A detailed record of all principal and interest payments made over the entire term shall be maintained with respect to each note payable. Periodically, the amounts reflected as current and long-term notes payable per the general ledger shall be reconciled to these payment schedules and the amortization schedules, if any, provided by the lender. All differences shall be investigated.

3.0 NON-INTEREST-BEARING NOTES PAYABLE

- 3.1 As a charitable organization, MERF may from time to time receive notes payable that do not require the payment of interest, or that require the payment of a below-market rate of interest for the type of obligation involved. In such cases, it shall be the policy of MERF to record contribution income for any unpaid interest.
- 3.2 For demand loans, recording of interest expense and contribution income shall be performed at the end of each accounting period, based on the outstanding principal balance of the loan during that period, multiplied by the difference between a normal interest rate for that type of loan and the rate, if any, that is required to be paid by MERF.
- 3.3 For loans with fixed maturities or payment dates, the note payable shall be recorded at the present value of the future principal payments, using as a discount rate the difference between a normal interest rate for that type of loan and the rate, if any, which is required to be paid by MERF. The difference between the cash proceeds of the note and the present value shall be recorded as contribution income in the period the loan is made. Thereafter, interest expense shall be recorded in each accounting period using the effective interest method, with the corresponding credit entry increasing the note payable account to reflect the amount(s) that shall be repaid.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	7/31/11 <u>12/15</u>	<u>Changes in responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

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SOP # G&A117 Revision: ~~01~~
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A117 FINANCIAL AND TAX REPORTING

Policy: The Organization will prepare annual and monthly financial statements as management considers necessary and prepare non-profit tax information and tax information returns within eight months of the fiscal year close.

Purpose: The purpose is to control and prepare consistent and accurate financial statements and tax returns that are relied upon by both internal and external parties.

Scope: This applies to financial statements and tax reporting documents.

Responsibilities:

Chief Financial Officer or his designee is responsible for preparing all tax documents and ensuring Organization financial statements are accurate.

~~Finance Manager~~ EdTec is responsible for preparing all Organization financial statements.

Background: Preparing financial statements and communicating key financial information is a necessary and critical accounting function. Financial statements are management tools used in making decisions, in monitoring the achievement of financial objectives, and as a standard method for providing information to interested parties external to MERF. Financial statements may reflect year-to-year historical comparisons or current year budget to actual comparisons.

Procedure:

1.0 STANDARD FINANCIAL STATEMENTS

1.1 Prepare the basic financial statements at year end and as considered necessary for reporting purposes. The basic financial statements of the Organization are maintained and prepared by MERF on an Organization wide basis and shall include:

1. **Statements of Financial Position** - reflects assets, liabilities and net assets of MERF and classifies assets and liabilities as current or non-current/long-term.

2. **Statements of Activities** - presents support, revenues, expenses, and other changes in net assets of MERF, by category of net asset (unrestricted, temporarily restricted and permanently restricted)

2.0 FREQUENCY OF PREPARATION

- 2.1 The objective of the ~~Accounting Department~~ EdTec is to prepare accurate financial statements in accordance with generally accepted accounting principles and distribute them in a timely and cost-effective manner. In meeting this responsibility, the following policies shall apply:
 - 2.2 A standard set of financial statements described in the preceding section shall be produced on a bi-monthly basis for presentation at the Board of Directors meeting. The standard set of financial statements described in the preceding section shall be supplemented by the following schedules:
 1. Individual statements of activities on a departmental and functional basis (and/or program/grant basis)
 2. Comparisons of actual year-to-date revenues and expenses with year-to-date budgeted amounts

The bi-monthly set of financial statements shall be prepared on the cash basis of accounting with exception of year-end reports where accrual method of accounting must be used. Year-end report must include all receivables, accounts payable received by the end of the reporting period, and actual depreciation expense.

3.0 REVIEW AND DISTRIBUTION

- 3.1 All financial statements and supporting schedules shall be reviewed and approved by the Chief Financial Officer, prior to being issued by ~~the Accounting Department~~ EdTec. They should be signed by the preparer and the Chief Executive Officer.
- 3.2 After approval by the Chief Financial Officer, a complete set of monthly financial statements shall, including the supplemental schedules described above, shall be distributed to the following individuals:
 1. All members of the Finance and Audit Committee of the Board
 2. Chief Executive Officer
 3. School Principals and any other employee with budget-monitoring responsibilities will receive only the budget vs. actual report
- 3.3 Financial statements may include an additional supplemental schedule prepared or compiled by the Chief Financial Officer. The purpose of this schedule is to

provide known explanations for material budget variances in accordance with MERF'S budget monitoring policies. Also included is a list which lists all invoices that have not been paid at the end of the year and all revenues, if any, that have not been received.

4.0 ANNUAL FINANCIAL STATEMENTS

4.1 A formal presentation of MERF's annual financial statements shall be provided by the independent auditor to the full Board of Directors at MERF's annual meeting. This presentation will be preceded by a meeting with MERF's Finance and Audit Committee, at which the Finance and Audit Committee will vote to accept or reject the annual financial statements.

5.0 GOVERNMENT RETURNS

5.1 MERF must be aware of its tax and information return filing obligations and comply with all such requirements of the Federal government, California and local jurisdictions. Filing requirements of MERF include, but are not limited to, filing annual information returns with the Internal Revenue Service (IRS), California charitable solicitation reports, annual reports for corporations, property tax returns, income tax returns, information returns for retirement plans, annual reporting of compensation paid, and payroll withholding tax returns.

6.0 FILING OF RETURNS

6.1 It is the policy of MERF to become familiar with the obligations in each jurisdiction and to comply with all known filing requirements. The Chief Financial Officer shall be responsible for identifying all filing requirements and assuring that MERF is in compliance with all such requirements.

6.2 It is also the policy of MERF to file complete and accurate returns with all authorities. MERF shall make all efforts to avoid filing misleading, inaccurate or incomplete returns.

6.3 Reports and returns which may be required to be filed by MERF include, but are not limited to, the following returns:

1. **Form 990** - Annual information return of tax-exemption of MERF, filed with IRS. Form 990 for MERF is due on the **fifteenth day of November, annually.**
2. **Form 990-T** – Annual tax return to report MERF'S unrelated trade or business activities (if any), filed with the IRS. Form 990-T is due on the **fifteenth day of November, annually.**

3. **Form 199** – Exempt Organization Annual Information Statement or Return (California) – This form is due on the **fifteenth day of November, annually.**
 4. **Form 5500** - Annual return for MERF'S employee benefit plans. Form 5500 is due on the **fifteenth day of November, annually.**
 5. **Federal and State Payroll Returns** - Filed on a quarterly or annual basis.
 6. **Form RRF-1** – Registration/Renewal Fee Report to Attorney General of California. This form is due on the **fifteenth day of November, annually.**
 7. **SF-SAC** – The Office of Management and Budget requires all Form SF-SAC and Single Audit submissions to be submitted on the Federal Audit Clearinghouse (FAC) Internet Data Entry System. The due date is established by OMB Circular A-133.
 8. **Form 1099's** – See **PUR101 VENDOR SELECTION.**
- 6.4 MERF'S fiscal and tax year-end is June 30. All annual tax and information returns of MERF Form 990, Form 990-T are filed on the accrual basis of reporting.
- 6.5 Federal and all applicable California payroll tax returns are prepared by the Chief Financial Officer, in consultation with MERF'S independent auditor and the pension plan third-party administrator.
- 6.6 It is the policy of MERF to comply with all California payroll tax requirements by withholding and remitting payroll taxes to California for each MERF employee.

7.0 PUBLIC ACCESS TO INFORMATION RETURNS

- 7.1 Under regulations that became effective in 1999, MERF is subject to Federal requirements to make the following forms "widely available" to all members of the general public:
1. The three most recent annual information returns (Form 990), and
 2. MERF'S original application for recognition of its tax-exempt status (Form 1023 or Form 1024), filed with IRS, and all accompanying schedules and attachments.
- 7.2 It is the policy of MERF to adhere to the following guidelines in order to comply with the preceding public disclosure requirements:
1. Anyone appearing in person at the offices of MERF during normal working hours making a request to inspect the forms will be granted access to a file copy of the forms. The Chief Financial Officer shall be

responsible for maintaining this copy of each form and for making it available to all requesters.

2. For all written requests for copies of forms received by MERF, the Organization shall require pre-payment of all copying and shipping charges. For requests for copies that are received without pre-payment, MERF will notify the requester of this policy via phone call or by letter within 7 days of receipt of the original request.
3. The copying cost charged by MERF for providing copies of requested forms shall be \$1.00 for the first page copied and \$0.20 for each subsequent page. All copies shall be shipped to requesters via Priority Mail, thus, shipping charges will be a standard \$5.00 per shipment.
4. After payment is received by MERF, all requested copies should be shipped to requesters within 30 days. Making of all copies and shipping within the 30-day time period shall be the responsibility of the Accounting Department.
5. For requests for copies made in person during normal business hours, copies shall be provided while the requester waits provided the request is for twenty-five (25) or less copied pages. Requests for copies in excess of 25 pages but less than 100 pages will be available the next business day. All requests in excess of 100 pages will be available to the requestor five (5) business days after the request.
6. MERF shall accept certified checks and money orders for requests for copies made in person. MERF shall accept certified checks and money orders or personal checks as payment for copies of forms requested in writing. Personal checks must clear the bank prior to the copies being made and delivered to the requestor.

8.0 UNRELATED BUSINESS ACTIVITIES

- 8.1 Identification and Classification of unrelated business activities must be separately identified.
- 8.2 It is the policy of MERF to properly identify and classify income-producing activities that are unrelated to MERF's tax-exempt purpose using the guidelines described in the Internal Revenue Code and underlying regulations. Such income accounts shall be segregated in separate accounts in the general ledger of MERF in order to facilitate tracking and accumulation of unrelated trade or business activities.
- 8.3 It is the policy of MERF to file IRS Form 990-T to report taxable income from unrelated trade or business activities. Form 990-T is not subject to any public

access or disclosure requirements. Accordingly, it is the policy of MERF not to distribute copies of Form 990-T to anyone other than management and the Board of Directors of MERF.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>8/411/12/15</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz, CFO</u>

SOP # G&A118 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A118 BUDGETING

Policy: The School Site Principals ~~and with the support of EdTec~~ their team are responsible for preparing, monitoring, and implementing the annual school site budget. The School Site Principal must have the school site budget approved by the Board of Directors no less than 60 days before the fiscal year end. It is the School Site Principal's responsibility to work with the central office in order to acquire the necessary budgetary information to implement their program. The budget may be revised as needed.

An annual Organization-wide budget shall be prepared on the accrual basis of accounting and the budget shall be adopted by the Board of Directors. The budget may be revised as needed. It is the policy of the Organization to adopt a final annual operating budget at least 60 days before the beginning of MERF's fiscal year.

Purpose: A budget is a management commitment of a plan for present and future MERF activities that will ensure survival. It provides an opportunity to examine the composition and viability of MERF's programs and activities simultaneously in light of all available resources

Scope: This applies to all departments and chart of accounts of the Organization.

Responsibilities:

Principal is responsible for ~~preparing~~ providing information to EdTec so that the back-office service provider can prepare the annual site budget and make revisions as needed.

~~Finance Manager~~ The Finance Department is responsible for reviewing the school site and Organization-wide budgets and budget revisions.

~~Edtec School Site Accountant~~ is responsible for preparing monthly budget vs. -actual comparison reports.

Background: Budgeting is an integral part of managing MERF in that it is concerned with the translation of MERF's goals and objectives into financial and human resource terms. A budget should be designed and prepared to direct the most efficient and prudent use of the MERF's financial and human resources. A budget is a management commitment of a plan for present and future MERF activities that will ensure survival. It provides an opportunity to examine the composition and viability of MERF's programs and activities simultaneously in light of all available resources.

Procedure:

1.0 PREPARATION AND ADOPTION

- 1.1 The school site budgets will be developed by the School Site Principals and ~~their team EdTec.~~ and ~~the~~ Organization-wide budget will be prepared by the ~~Finance Manager~~ Chief Financial Officer with the support of EdTec. They will gather proposed budget information from all School Site Accountants and others with budgetary responsibilities and prepare the first draft of the budget. Budgets proposed and submitted by each department should be accompanied by a narrative explanation of the sources and uses of funds and explaining all material fluctuations in budgeted amounts from prior years.
- 1.2 After appropriate revisions and a compilation of all school site budgets by ~~EdTec~~ the Finance Manager, a draft of the school site budgets and Organization-wide budget will be presented to the Chief Financial Officer for discussion, revision, and preliminary approval. The Chief Executive Officer is responsible for the final approval of all budgets.
- 1.3 The final budget is then submitted by the Chief Financial Officer to the Board of Directors for adoption. School Site Principals shall be present at the Board of Directors budget approval meeting.
- 1.4 It is the policy of MERF to adopt a final annual operating budget at least 60 days before the beginning of the MERF's fiscal year. In addition, the Accounting Department must setup the new fiscal year accounts, to input the budget into the accounting system and establish appropriate accounting and reporting procedures (including any necessary modifications to the chart of accounts), to ensure proper classification of activities and comparison of budget versus actual once the new year commences.

2.0 MONITORING PERFORMANCE

- 2.1 MERF will monitor its financial performance by comparing and analyzing actual results with budgeted amounts. This function will be accomplished in conjunction with the monthly financial reporting process described earlier.
- 2.2 On a monthly basis, budget reports comparing actual year-to-date revenues and expenses with budgeted year-to-date amounts shall be produced by ~~the School Site Accountants~~ EdTec and distributed to each respective School Principal by the 20th of the following month.
- 2.3 The financial reports will also be distributed, on a bi-monthly basis, to the Board of Directors. The Chief Financial Officer and School Site Principal, with the

support of EdTec, will be responsible for answering budget questions posed at the Board meetings.

- 2.4 The Chief Financial Officer will also institute an on-going monitoring plan to ensure the fiscal operations effectively implement all Federal and State requirements and to ensure the safeguarding of Federal and State funds and assets.

3.0 BUDGET MODIFICATION

- 3.1 After a budget has been approved by the Board of Directors and adopted by MERF, reclassifications of budgeted expense amounts may be made by ~~the Finance Manager~~, EdTec, with approval from the Chief Financial Officer.

- 3.2 Budget reclassifications of any amount are at the discretion of the Chief Financial Officer.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	7/31 <u>11/12/15</u>	<u>Inclusion of back-office provider process</u>	<u>Oswaldo Diaz, CFO</u>

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SOP # G&A121 Revision: 01
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: G&A121 SCHOOL SITE ACCOUNTING

Policy: It is the policy of MERF to consider each school to be a separate and distinct financial accounting entity in order to maintain an accurate fund accounting system.

Purpose: The purpose of this policy is to clearly define relationships between each school and with the business office in regards to financial accounting.

Scope: This applies to the Organization's charter schools and business office.

Responsibilities:

~~School Site Accountant~~ EdTec, with the support of the Financial Analysts, is responsible for timely and accurate recording of transactions, providing useful management information, and properly reporting such information for various user needs.

~~Finance Manager~~ The Chief Financial Officer is responsible for overseeing ~~School Site Accountants~~ the Financial Analysts and providing assistance where needed.

Background: Separate accounting for each of the charter schools is critical in order to monitor budget performance and to determine how to allocate resources.

Procedure:

1.0 SEPARATE ACCOUNTING

- 1.1 ~~Each School Site Accountant~~ EdTec ~~should~~ will utilize the same accounting policies for each school they are responsible for. Consistency in accounting will ensure that the charter schools can be evaluated using the same benchmarks and will assist in evaluating performance.
- 1.2 Each Charter School will have its own ~~QuickBooks~~ accounting file to assist in maintaining separate accounting for each school, and a separate bank account to avoid comingling of funds.

2.0 FUNDRAISING

- 2.1 Fundraising generated from each school may not be transferred to another school.
- 2.2 Revenues from fundraising will be recorded in ~~QuickBooks~~ the accounting system using the ~~class~~ resource tracking system in order to account for funds

received from different events. Funds may be used for operating purposes unless restricted by the donor or explicitly restricted by the event.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>7/24</u> 11/12/15	<u>Inclusion of back-office provider processes</u>	<u>Oswaldo Diaz, CFO</u>

SOP # PUR102 Revision: 12

Prepared by: Central Office

Effective Date: 112/1220/15

Approved by: BOD

Title: PUR102 GENERAL PURCHASING

Policy: All purchases of goods and services shall be consistent with the Board-approved budget. The investment in supplies and capital equipment will be facilitated through the Purchasing Department, maintained at the lowest effective level and supervised consistent with a common set of procedures and controls as required by all regulatory and customer contract requirements.

Purpose: To outline the actions to be taken for 1) the procurement of supplies and capital equipment, 2) the completion of related documents.

Scope: This procedure applies to the purchase of all supplies and capital equipment for all departments within the Organization.

Responsibilities:

All personnel that require a product or service must complete a request in CoolSIS specifying items for purchase and obtain required approvals.

Chief Financial Officer, ~~Controller, & School Site Accountant~~ and the Finance Department are responsible for using good purchasing methods, optimizing price savings, quality or value of products, vendor working relationships, placing orders with approved suppliers, negotiating pricing with suppliers, and forwarding all paperwork to ~~accounting~~ EdTec accounts payable for payment.

~~School Site Accountant~~ EdTec accounts payable is responsible for payment of invoices only after satisfactory completion or delivery of goods or services has been made.

The School Site Personnel and Other Designated Individuals are responsible for receiving, inspecting materials, and forwarding all paperwork to a designated agent at EdTec ~~Accounting~~.

Procedure:

1.0 ORDER DETERMINATION AND REQUISITION

1.1 Purchasing should obtain the optimal price for any purchases. All purchases above \$5,000 require at least 3 quotes to be obtained. Quotes may be submitted by the requestor, Controller or the Purchase Manager can obtain the 3 quotes. The quotes are entered into CoolSIS along with evaluation and selection of the best option by the requestor. The Chief Financial Officer reviews the 3 quotes and forwards the recommendations to the Chief Executive Officer for final review and decision.

1.2 For purchases of goods and supplies, a request in CoolSIS will be prepared by the originating individual or department. The CoolSIS request should be completed and approved with the following items and any additional supporting documentation:

- Complete description with part or model numbers and link to website if available
- Engineering drawings and specifications
- Type, Class, Grade required
- Quantity required
- Date required
- Requesting department, ~~and accounting~~ account code, and allowance/resource code
- Recommended vendor or source if applicable
- Other requirements
- Special shipping requirements
- Special inspection requirements upon receipt

For the following purchases, additional information is required:

- Textbooks – Full ISBN
- Airline tickets - passenger(s) legal name(s), date of birth, gender, departure/arrival airport codes and exact dates
- Vehicle rentals - vehicle type, exact dates and exact pick up/drop off locations

1.3 If the requisition is for subcontracted services:

- A complete description of the service to be performed
- Engineering drawings and specifications if appropriate
- Requirements for qualification of personnel
- Other documents such as insurance forms, etc.
- Quality standards to be applied

1.4 Purchasing/Accounting will analyze terms, vendor, pricing, quantity breaks, etc., and will order accordingly in the Organization's best interest. Purchasing will notify the requester of any material variances prior to placement of the order.

1.5 Reimbursements for purchases made by staff will be processed upon proper authorization through CoolSIS.

2.0 ORDER PLACEMENT

- 2.1 Requestor is responsible for completing a purchase order form for all orders. This can be processed through CoolSIS. Purchase orders are exempted for items such as salaries and related costs, utilities, and instate travel, or where a contract exists.
- 2.2 If there are any requirements for items to be inspected at the supplier's or the Organization's premises by the Organization or our customer, the arrangements and method of product release shall be included in the purchasing information.
- 2.4 Buyers must review their purchase orders for accuracy. The buyer submits their authorization through CoolSIS indicating the review was performed.
- 2.5 Orders can be placed with the vendor either by telephone, fax, internet or mail. When placing orders by telephone, the vendor contact and date of order should be noted and a confirming copy of the order sent to the vendor. Pre-approval for any purchase is always required.
- 2.6 Purchasing is responsible for communicating with those receiving the supplies, following-up on shipping, delivery, and expediting and partial shipments of ordered items. Purchasing can either telephone vendors or use a PUR102 Ex 1 PURCHASE ORDER FOLLOW-UP form to verify, trace or expedite orders.

3.0 RECORDKEEPING AND MATCHING

- 3.1 When Purchase Orders are issued, the Purchasing and Accounting copies will be placed in an Open File until the items are received. The Open File should be reviewed on a weekly basis to determine whether any orders need follow up.
- 3.2 Items will be received in accordance with procedure PUR103 RECEIVING AND INSPECTION. The completed vendor's packing list is kept at the site where the shipment was received.
- 3.4 For partial shipments, a note will be made in CoolSIS to identify the shipment as partially received. The original Purchase Order will be kept in the open file until all items are received.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Segregation of duties and limits	Oswaldo Diaz, CFO
<u>2</u>	<u>11/12/15</u>	<u>Inclusion of back-office service provider processes</u>	<u>Oswaldo Diaz, CFO</u>

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PUR102 Ex1 PURCHASE ORDER FOLLOW-UP

To:

Date: _____

Please rush a reply to us by fax or telephone on the information requested below. Thank you.

Our Purchase Order #: _____

From:

Dated: _____

Please Respond To Our Request As Indicated Below

- Please rush shipment. Advise delivery date: _____
- Has shipment been made? Advise carrier/date: _____
- Partial shipment received. Balance to ship when? _____
- Can you ship in accordance with our requested date? _____
- This shipment will be shipped via what? _____
- Price on Terms do not match quotation: _____
- Please review attached and confirm accuracy of all information and prices. Acknowledge below.
- These items are not taxable. Our Tax Exempt No. is _____. Please revise invoice.
- Incorrect calculations on invoice noted. See attached and verify.
- Other _____

Comments or Reply: _____

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SOP # PUR103 Revision: 01
Effective Date: 11/12/15/~~14/13~~

Prepared by: Central Office
Approved by: BOD

TITLE: PUR103 RECEIVING AND INSPECTION

Policy: All parts, components, goods and materials will be received in an organized manner and inspected for conformance prior to stocking or use in order to provide an initial quality control inspection. Any items or shipments rejected will be properly quarantined from other inventory items until disposition.

Purpose: This procedure outlines the steps for the receiving and inspection of materials, components, or parts and the disposition of rejected items.

Scope: This procedure applies to the receipt of all purchases.

Responsibilities:

Anyone Performing the Receiving Function are responsible for receiving, inspecting materials, filing receiving documents at site, and marking purchase order as received.

Accounting/Purchasing is responsible for accepting or rejecting damaged goods.

School Site Accountant/EdTec is responsible for payment of invoices.

School Site Accountant/Finance Manager The Finance Department will review and authorize all rejections.

Procedure:

1.0 RECEIVING

1.1 A "receiver" is any form used to record the specific types and counts of product or materials received. Usually, the receiver is provided by the vendor and is not part of the Organization's system at all.

An example of this would be a detailed packing slip, furnished by the vendor with the shipment. The packing slip should be kept at the school site.

All incoming product or materials are to be counted and reconciled with what was originally purchased. Discrepancies must be recorded.

1.2 All incoming shipments must be examined for apparent package damage. If the shipment has apparent damage, notify Purchasing/Accounting immediately. Purchasing will decide to either accept or reject the shipment from the carrier and/or file a freight claim.

1.3 If the shipment shows no signs of damage or the Purchase Manager or School Site Principal or designee has decided to accept a damaged shipment, count the shipping pieces (i.e., packages, boxes but not the contents; see Inspection below)

and confirm with the bill of lading and note any exceptions (i.e., package damage or shortages).

2.0 INSPECTION

- 2.1 At the receiving holding area, each shipment should be unpacked and all items piece counted and matched to the packing list. If a packing list is not available, complete as an example PUR103 Ex1 RECEIVING AND INSPECTION REPORT.
- 2.2 The shipment will then be inspected for conformance according to the inspection level required for each part number (see PUR103 Ex3 INVENTORY INSPECTION LEVELS). If multiple part number classes are included in the shipment, each class will be segregated and inspected accordingly.
- 2.3 Any previously undiscovered damage to individual inventory items should be noted on the inspection report and immediately followed up with the vendor.

3.0 REJECTION, DISCREPANCIES AND DISPOSITION

- 3.1 Any count discrepancies will be noted on the packing list or as an example PUR103 Ex2 RECEIVING AND INSPECTION REPORT, signed and forwarded to Purchasing. Purchasing will then follow-up with the vendor to resolve the shipping discrepancy.
- 3.2 If there is a non-conformance discrepancy, the suspect goods will be red-tagged and separated (quarantined) from other parts and immediately placed in a separate holding area for disposition.
- 3.3 If only partial goods in the shipment are of non-conformance, the accepted goods should be noted on the paperwork and stocked or placed in use per above procedure.
- 3.4 Complete as an example PUR103 Ex2 RECEIVING AND INSPECTION REPORT for any rejected parts. Accounting will review and authorize all rejections and complete Part II of the report.
- 3.5 Goods found to be in conformance or suitable for their intended use and accepted by Accounting will have the red tag removed and be returned to the receiving area or location the product is needed for use. Accounting will note on the report the justification for any accepted parts and forward the report along with the packing list to the Purchase Manager.

Goods rejected by Accounting will continue to be quarantined and red tagged until disposed. Purchasing will determine and arrange for the appropriate disposition of rejected items (i.e., return to vendor for credit, scrap, etc.).
- 3.6 Unidentified shipments should be resolved by the Purchase Manager. Contact the Chief Financial Officer to resolve any suspicious looking packages.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>11/7/12</u> 31/15	<u>Changes to responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

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PUR103 Ex2 RECEIVING AND INSPECTION REPORT

PART I RECEIVING

Date: _____

Vendor/Supplier/Subcontractor: _____

P.O. Or Contract No.: _____

Item No.	Description	INSPECTION Criteria	QUANTITIES			
			Ordered	Received	Inspected	Accepted

Received By: _____

PART II INSPECTION

Inspected By: _____

Sample Lot

Conformance/Discrepancies to Specifications

		YES	NO		YES	NO
Lot Size: _____	Shipping Damage	<input type="checkbox"/>	<input type="checkbox"/>	Functional	<input type="checkbox"/>	<input type="checkbox"/>
Sample Qty: _____	Markings/Finish	<input type="checkbox"/>	<input type="checkbox"/>	Dimensions	<input type="checkbox"/>	<input type="checkbox"/>
	Attributes	<input type="checkbox"/>	<input type="checkbox"/>	Other	<input type="checkbox"/>	<input type="checkbox"/>

Accepted: _____ Date: _____ Rejected: _____ Date: _____

Place in Stock

Cause for Rejection: _____

Forward to Next Operation

PART III REJECTED PARTS DISPOSITION

Return to Vendor

Conditional Acceptance Approvals

Signature

Signature

Remarks: _____

Further comments may be noted on back of report or additional sheets if necessary.

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PUR103 Ex3 INVENTORY INSPECTION LEVELS

The following are generic descriptions of the type of inspections that should be performed for various classes of inventory items. These descriptions are not completely comprehensive for all the possible types of inventory that can be received and therefore, the inspector should use appropriate judgment to determine any special inspection procedures that may be necessary for unique items.

The inspection levels are intended to be cumulative in that higher level inspections will also include all lower level inspection procedures.

The percentage of the total parts inspected will be according to the part number specifications. For example, an inspection level indication of "Level II, 25" would require that 25% of the parts received in the shipment will be examined at a Level II inspection.

If defects or rejected items are discovered within a shipment and less than a 100% inspection has been performed, the receiving inspector will consult with the Quality Control Manager to determine the appropriate action for assurance of the remainder of the shipment.

- Level I: Visual inspection of the shipment or lot. Items appear reasonably to match packing list description(s). Nothing comes to the attention of the inspector as noticeable defects or as unusual and unordinary.
- Level II: Actual hands-on visual inspection of individual parts. Each part inspected will be analyzed for the quality of workmanship and construction and the appearance of any defects.
- Level III: A functional test of the part will be performed as appropriate for the item. For example, pneumatic parts should indicate function when attached to compressed air source; moving parts should rotate, slide etc.; electrical components should operate, light, etc.
- Level IV: The part will be inspected against a set performance or measurement standard as indicated in the part file. For example, structural items will be measured for compliance to drawings within specified tolerances; electrical and mechanical devices will function according to specified performance standards.

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SOP # PUR104 Revision: 12
Effective Date: ~~2/20/15~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: PUR104 ACCOUNTS PAYABLE AND CASH DISBURSEMENTS

Policy: Internal controls are required to ensure that only valid and authorized payables are recorded and paid. Accounting procedures should be implemented to ensure the accuracy of amounts, coding of General Ledger accounts and appropriate timing of payments. All accounts payable and cash disbursements will have documented pre-approval, and the authorization limits are stated in the below Responsibilities section.

Purpose: To explain the practices for documenting, recording and issuing payments for accounts payable transactions. (Note: Payments, disbursements, and expenditures result from accounts payable transactions)

Scope: This procedure applies to all purchases including, contractors, consultants, and merchandise and non-merchandise purchases.

Responsibilities:

The Principal at each school site is responsible for reviewing and approving payments under \$~~35,000~~ in ~~Coolsis~~ CoolSIS, in accordance with the approved budget.

~~The Controller is responsible for reviewing and approving payments over \$3,000, up to \$5,000 in accordance with the approved budget.~~

The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments.

The Chief Executive Officer is responsible for reviewing and approving payments over \$10,000 in accordance with the board approved budget, as well as up to \$10,000 for non-budgeted items.

~~School Site Accountant~~ EdTec is responsible for payment of invoices in a timely manner.

Background: Properly recording liabilities is generally a three-step process, particularly, for merchandise purchases.

The first step is recording the liability upon receipt of merchandise, using the purchase order estimates or other documentation as a guideline. For accuracy and timeliness of data, a liability should be recorded as soon as the Organization receives the purchased items.

Consultant projects are not recognized as a liability until the invoicing from the consultant is received unless and accrual has been recorded to recognize the total estimated cost of the consultant's services.

By necessity, this initial recording is usually an estimate or encumbrance and can be finalized when the actual invoice arrives. This is why a Purchase Order is so important for merchandise purchases. It documents the Organization's understanding of how much each item will cost, per the vendor's terms. This includes estimates for freight and any other charges.

The second step takes place when the vendor's invoice is received. At this point the actual liability is finalized, with any necessary adjustments to the item costs, freight, or other charges.

The third step involves the preparation, issuance of payment for the goods received, and subsequent filing of all paperwork for easy retrieval.

Procedure Overview:

Cash disbursements are generally made for:

1. Payments to vendors for goods and services
2. Taxes/license fees
3. Staff training and development
4. Memberships and subscriptions
5. Meeting expenses
6. Employee reimbursements
7. Marketing/promotional materials

Checks are processed throughout the week.

Requests for cash disbursements are submitted to Accounting through CoolSIS. Documentation for CoolSIS requests can be in three ways:

1. Original invoice
2. Purchase request (submitted on approved form)
3. Employee expense report or reimbursement request

All invoices must be approved by the appropriate staff prior to being submitted to accounts payable. Accounts payable will determine the account code for each invoice.

Approvals for reimbursement requests must be obtained prior to the purchase. The Organization is not obligated to reimburse requests where prior approval was not obtained; however this decision is made at the discretion of the Chief Financial Officer.

Every employee reimbursement or purchase request must be documented in CoolSIS. Please see PUR106 Reimbursements for more details.

Requests for payment are reviewed in CoolSIS by the Principal, Controller, or Chief Financial Officer dependent on purchase amount. The appropriate personnel:

1. Verifies expenditure and amount
2. Approves for payment if in accordance with budget
3. Provides or verifies appropriate allocation information
4. Provides date of payment taking into account cash flow projections
5. Submits to the School Site Accountant for processing

~~The Accounting Staff~~ EdTec processes all payments and:

1. Immediately enters them into the Accounts Payable module unless it is paid upon receipt on the same day
2. Prints checks according to allocation and payment date provided by the authorizing party
3. Submits checks, with attached backup documentation, to Chief Financial Officer for approval and signature.
- ~~4. Stamps invoice "paid"~~
- ~~5.4.~~ Mails checks and appropriate backup documentation
- ~~6.5.~~ Files all backup documentation in the appropriate file
- ~~7.6.~~ Monitors accounts payable throughout the month

Procedure:

1.0 DOCUMENTING ACCOUNTS PAYABLE

1.1 The following documents will be forwarded to EdTec accounts payable as a PDF batch for temporary filing and subsequent matching to form an accounts payable voucher package:

- Purchase Order from CoolSIS
- Vendor invoice
- Vendor/Consultant contract

1.2 Once ~~the accounting department~~ EdTec has received all of the above documents, the following steps will be performed to ensure proper authorization, validity of purchase, receipt of purchased items or services and accuracy of amounts.

- ~~• The vendor invoice will be stapled on top of the purchase order.~~

- The purchase order should be evaluated for proper authorization and the nature of the purchase and pricing as shown on the invoice reviewed for validity.
- The quantities shown shipped or delivered on the invoice will be compared to the packing slip and/or receiving reports if items have been received by the designee of each site. Any discrepancies must be followed-up and resolved prior to commencing with the disbursement process.
- Calculations on the invoice will be recomputed such as quantities received multiplied by unit price and totals.

2.0 RECORDING NON-MERCHANDISE PAYABLES

- 2.1 Non-merchandise expenditures like utilities, rent, insurance, taxes, repairs, professional fees, etc., are generally not recorded through the purchase order routine. However, there may be other documentation, like contracts, requisitions, and other agreements. These should be filed in the applicable vendor file as documentary support. Upon receipt of the invoice, the charges should be entered into the payable system and coded to the appropriate expense account.
- 2.2 Generally, once invoices (both merchandise and non-merchandise) have been entered, they can be filed in the respective vendor files, ordered by date. To guard against misfiling an un-entered invoice, consider stamping "entered" on each invoice when it's recorded in accounts payable. It is also helpful to note the entered date and initial the entry.

3.0 PAYMENT OF ACCOUNTS PAYABLE

- 3.1 Accounts payable systems generally provide an aged accounts payable report and list the open payables within the accounting system. Open payables are reviewed by EdTecthe School Site Accountant. ~~The School Site Accountant~~ The Chief Financial Officer should select the bills to be paid based on the funds available and a projection of cash flow or receipts over the coming week. Once complete, process the disbursements by either printing the check, electronic online bill pay, wire transfer, or ACH withdrawal for the selected bills to be paid.

Note: Accounts payable should normally be paid within seven days or sooner of their payment term unless otherwise determined by the Chief Financial Officer.

- 3.2 Any vendor credits which are amounts owed to the Organization should be applied to amounts currently owed to the vendor when determining payment. These are normally received in the form of a credit memo or adjusting invoice. These should be entered into the system like any other invoice and applied to the next payment being made. There is no reason to "age" a credit memo.
- 3.3 Pull all Invoices to be paid from the files and match them with the printed checks, wire transfer, electronic online bill pay, or ACH withdrawal documentation. Present the materials to the Chief Financial Officer for review and signing.

- 3.4 Immediately ensure that all printed checks, wire transfer, electronic online bill pay, or ACH withdrawal documentation are signed and approved and correctly recorded in the accounting system. Stamp the invoices “paid” to document they've been paid. Use only checks that incorporate a two stub plus check form in order to attach one stub to the paid invoice and the other to the remittance copy of the Invoice.
- 3.5 If one check or electronic online bill pay pays several Invoices then either photocopy the stub or print the electronic online bill pay screen print and attach a copy to each paid Invoice or consider attaching all paid Invoices to the one check stub or the electronic online bill pay document. File all resulting documentation according to check number sequentially in the checks paid binders.
- 3.6 Mail the checks as soon as possible once checks have been posted and "paid" by the system. It is not advisable to "hold" checks for additional days after posting. This practice usually occurs when there are insufficient cash flows. However holding checks increases the difficulty of projecting cash flow, reduces cash balance accuracy, and causes confusion when trying to reconcile accounts payable vendor balances. None of these balances will be accurate if printed checks are held back from mailing. If cash flow is insufficient to mail the checks, then it is advisable not to post and print checks in the first place.

4.0 MANUAL CHECKS

- 4.1 The Organization does not permit the use of manual checks.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Revision of Purchase limits	Oswaldo Diaz, CFO
<u>2</u>	<u>8/411/12/15</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

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SOP # PUR105 Revision: 01
Effective Date: 11/2/12/153

Prepared by: Central Office
Approved by: BOD

Title: PUR105 PREPAID EXPENSES

Policy: It is the policy of MERF to treat payments of expenses that have a time-sensitive future benefit as prepaid expenses and to amortize these items over the corresponding time period. For purposes of this policy, prepaids are only accounted for at the end of the fiscal year and the amount that is considered to be prepaid remains at the discretion of the Chief Financial Officer and the Finance Manager.

Purpose: To ensure the proper payment and accounting of expenses that have a future benefit allocated over time.

Scope: Any transaction that is currently paid that has a value that can be amortized over a future time period.

Responsibilities:

~~Finance Manager~~ The Chief Financial Officer is responsible for reviewing and authorizing prepaid expenses.

~~School Site Accountant~~ The Finance Department with the support of EdTec is responsible for processing prepaid payments and -

~~School Site Accountant~~ is responsible for amortizing the prepaid cost of the expected future life of the prepaid asset.

Background: Prepaid expenses are very common and allow the Organization to on occasion take advantage of pre-paying for certain expenses and thus recovering discounts or ensuring that a certain expense is fully paid.

Procedure:

1.0 ACCOUNTING TREATMENT

1.1 Prepaid expenses with future benefits that expire within one year from the date of the financial statements shall be classified as current assets. Prepaid expenses that benefit future periods beyond one year from the financial statements date shall be classified as non-current assets.

2.0 PROCEDURES

2.1 As part of the account coding process performed during the processing of accounts payable at the end of the fiscal year, all incoming vendor invoices shall be reviewed for the existence of time-sensitive future benefits. If future benefits are identified, the payment shall be coded to a prepaid expense account code.

~~The School Site Accountant~~ The Finance Department shall maintain a schedule of all prepaid expenses. The schedule shall indicate the amount and date paid, the

period covered by the prepayment, the purpose of the prepayment, and the monthly amortization. This schedule shall be reconciled to the general ledger balance as part of the monthly closeout process.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>11/12/15</u>	<u>Revision of responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

SOP # PUR106 Revision: 12
Effective Date: 2/20/15 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: PUR106 REIMBURSEMENTS

Policy: Internal controls are required to ensure that only valid and authorized reimbursements are recorded and paid. Accounting procedures should be implemented to ensure the accuracy of amounts, coding of General Ledger accounts and appropriate timing of payments.

Purpose: To explain the practices for documenting, recording and issuing payments for reimbursement transactions.

Scope: This procedure applies to all reimbursements.

Responsibilities:

The Principal at each school site is responsible for reviewing and approving payments under \$35,000 in Coolsis, in accordance with the approved budget.

~~The Controller is responsible for reviewing and approving payments over \$3,000, up to \$5,000 in accordance with the approved budget.~~

The Chief Financial Officer is responsible for reviewing and approving payments over \$5,000, up to \$10,000 in accordance with the approved budget. A designee can be assigned by the Chief Financial Officer to approve these payments.

The Chief Executive Officer is responsible for reviewing and approving payments over \$10,000 in accordance with the board approved budget, as well as up to \$10,000 for non-budgeted items.

~~School Site Accountant~~ EdTec accounts payable is responsible for payment of reimbursements in a timely manner. A timely manner is defined as within two weeks upon submission to ~~the School Site Accountant~~ EdTec accounts payable.

Background: Properly recording reimbursements is generally a three-step process.

The first step is accurately submitting reimbursement receipts along with a reimbursement authorization form.

The second step is obtaining the appropriate authorization.

The third step involves the preparation, issuance of reimbursement payment in a timely manner, and subsequent filing of all paperwork for easy retrieval.

Procedure Overview:

Reimbursements are generally made for:

1. Travel and conferences
2. Mileage
3. Meals
4. School/classroom supplies
5. Allowable academic expenses
6. Student awards
7. Other expenses

Reimbursement checks are processed on two week cycles or sooner.

Requests for cash disbursements are submitted to Accounting through CoolSIS. Documentation for CoolSIS requests can be in three ways:

1. Original invoice
2. Purchase request (submitted on approved form)
3. Employee expense report or reimbursement request

All reimbursement requests must be approved by the appropriate staff prior to being submitted to accounts payable. Accounts payable will determine the account code for each invoice.

Approvals for reimbursement requests must be obtained prior to the purchase. The Organization is not obligated to reimburse requests where prior approval was not obtained.

Every employee reimbursement or purchase request must be documented in CoolSIS with travel authorization, receipts, nature of business, program allocation, and funding source (if applicable) before approving for reimbursement as follows:

Travel and Conferences - an itemized receipt from the hotel detailing all charges, the person(s) for whom the lodging was provided, and the specific business purpose. This includes itemized receipts for parking, tolls and bridges, car rentals, taxis, and conference receipts. (See G&A103, Travel and Entertainment policy for more detailed information.)

Car Rentals – When possible, advance approvals are recommended. The employee is required to make their own car rental arrangements. Vehicle selection will be based upon the most cost-effective class that satisfies requirements for the employee(s) and any demonstration equipment.

Supplemental auto insurance coverage offered by car rental agencies must be purchased and will be reimbursed.

Mileage/Personal Vehicles - An employee required to use their own automobile for business will be reimbursed in accordance with the current IRS mileage reimbursement rate. The employee must provide on the expense report, documentation including dates, miles traveled and purpose of each trip.

The Organization assumes no responsibility for personal automobiles used for business. Further, any parking or speeding violation is the sole responsibility of the employee.

Meals and Entertainment - a receipt must be provided showing the cost of food, beverage, and gratuities, including the names of every person for whom food or beverage was provided, and the specific business purpose. Entertainment expenses are disallowed.

Meal and Entertainment tips are limited to 15% (unless automatically assessed by the eating establishment) of the pre-tax meal total cost and any tip that is in excess of the pre-tax meal total cost will not be reimbursed. For example, a meal that costs \$10 may have an 8% sales tax bringing the total meal price before tip to \$10.80. Figure the tip on the \$10 amount at 15% or \$1.50 and that amount of tip or less is reimbursable. If you tipped more than a \$1.50, that difference is not reimbursable. You are always allowed to tip less than 15% should you choose to do so.

School/Classroom Supplies, Allowable Academic Expenses, and Student Awards – these expenditures are subject to the approval of the Principal. Gifts of any kind are never allowed. Student awards may only be paid from non-ADA and unrestricted sources. In other words, student awards may be paid from unrestricted fundraising or from other unrestricted sources of income, subject to approval of the Principal and/or Central Office.

Other Expenditures - a receipt from the vendor detailing all goods or services purchased (including the class of service for transportation) and the specific business purpose.

Non-Reimbursable Expenses - Some expenses are not considered valid business expenses by the Organization, yet may be incurred for the convenience of the traveling individual. Since these are not expenses for the business then they are not reimbursable. (The following can be used as a guide of expenses, which are not reimbursable)

Examples include:

- Airline or travel trip interruption insurance
- Airline or travel lounge clubs
- Shoe shine or Dry-cleaning (except for extended travel beyond 5 days)
- Movies or personal entertainment

- Books, magazines or newspapers
- Theft or loss of personal property
- Doctor bills, prescriptions, or other medical services
- Parking tickets, traffic tickets or Car towing if illegally parked
- Health club memberships
- Baby sitter or Pet care fees
- Barbers and Hairdressers

Requests for reimbursement payments are reviewed in CoolSIS by the Principal, Chief Financial Officer, or Chief Executive Officer, dependent on purchase amount. The appropriate personnel:

1. Verifies and matches expenditure and amount
2. Approves for payment if in accordance with budget
3. Provides or verifies appropriate allocation information
4. Provides date of payment taking into account cash flow projections
5. Submits to the School Site Accountant for processing

Accounts Payable processes all payments and:

1. Immediately enters them into the Accounts Payable module, unless paid upon receipt on the same day
2. Prints checks according to allocation and payment date provided by the approving party
3. Submits checks, with attached backup documentation, to Chief Financial Officer for approval and signature
4. Stamps invoice “paid”
5. Mails checks and appropriate backup documentation
6. Files all backup documentation in the appropriate file
7. Monitors accounts payable throughout the month

Procedure:

1.0 DOCUMENTING REIMBURSEMENTS

All business reimbursement expenditures incurred by employees of the Organization are reimbursed through CoolSIS. Reimbursement receipts must be submitted monthly and any receipt that is older than 60 days will not be reimbursed at the discretion of the Chief Financial Officer.

Expense report forms must be filled out completely. Required original receipts for items charged must accompany all reimbursement documentation as well as uploaded into CoolSIS. Any questions regarding completion of the report should be directed to the employee's supervisor or the accounting department.

Upon completion, the expense report along with all attachments should be submitted to the employee's appropriate supervisor in CoolSIS for approval. After approval, the expense report is submitted to the accounting department for processing and reimbursement. In order to expedite reimbursement, the employee should ensure that the report is completed properly, required documentation is attached, proper authorization is obtained, and any unusual items properly explained and documented.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	2/13/15	Amount limit changes. Mileage reimbursement rate.	Oswaldo Diaz, CFO
<u>2</u>	<u>11/10/2015/15</u>	<u>Inclusion of back office service provider and amount limit changes.</u>	<u>Oswaldo Diaz, CFO</u>

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SOP # REV101 Revision: 01
Effective Date: 11/12/15/~~14/13~~

Prepared by: Central Office
Approved by: BOD

Title: REV101 SALES RECEIPT PROCESSING

Policy: To ensure the most accurate process for billing for services, sales receipts will be properly evaluated and approved prior to entry into the accounting system.

Purpose: This procedure outlines the activities and responsibilities involved in verifying the acceptability of all sales receipts.

Scope: These procedures are to be followed for all sales receipts.

Responsibilities:

~~School Site Accountant/Finance Manager~~ EdTec approves sales receipt documentation.

Procedure:

1.0 DOCUMENT VERIFICATION

1.1 Sales Receipts are often used for Parenting Fees and other similar fees. Verify that all of the correct documents have been used and are present to support the sales receipt transaction. The following documents are required to complete the Sales Receipt transaction:

- Document identifying what the money collected is for
- Approval or authorized signature for the course
- Customer, parent, or other correspondence or support documentation, etc
- Complete the EdTec Deposit Log

1.2 Verify that all required information is available to complete the sales receipt.

1.3 Review the customer's Accounts Receivable aging and determine that the customer is current with their payments and that the new sales receipt will not affect their balance.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	117/1231 <u>/15</u>	<u>Inclusion of back-office service provider process</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

SOP # REV102 Revision: 01
Effective Date: 11/12/152/14/13

Prepared by: Central Office
Approved by: BOD

Title: REV102 INVOICING, ACCOUNTS RECEIVABLE, RECEIVABLE ACCRUALS

Policy: The ~~Accounting~~ Finance Department is responsible for the timely preparation and distribution of invoices to optimize cash flow and customer payments.
~~Accounting~~ The Finance Department with the support of EdTec will also maintain accurate records over Accounts Receivables and Accruals and abide by proper internal controls.

Purpose: To explain the methods for the preparation of invoices, accounts receivable, and receivable accruals records processing.

Scope: This procedure applies to all revenue earned and services provided by the company.

Procedure:

1.0 SALES RECEIPT REVIEW

1.1 A formal invoice is not always applicable such as when service fees are collected for items such as Parenting.

1.2 The SALES RECEIPT should contain all pertinent billing information as part of the company's sales receipt procedure. However, as part of proper internal control, Billing will verify the information contained on the customer's sales receipt documentation.

As part of this review process, the propriety and accuracy of contact information, prices, description of services, extensions and footings will be determined.

2.0 INVOICE PREPARATION AND POSTING

2.1 The next sequentially numbered Invoice (see example REV102 Ex1 INVOICE) will be prepared from the information from the Federal, State, or Local Grant or Contract Language including all reimbursable costs and will include the invoice date, service item, description of services or billing information, quantity, rate, class or program code, price and extended amounts and the customer's billing addresses.

2.2 Post the invoice by saving the transaction.

3.0 DISTRIBUTION

3.1 Send one copy of the invoice to the customer and retain a second copy of the invoice in the customer file.

4.0 ACCOUNTS RECEIVABLE

4.1 Accounts Receivable will receive and process payments from customers in accordance with the CASH RECEIPTS procedure.

- 4.2 On a monthly basis, Accounts Receivable will generate an aged trial balance of customers' accounts with individual invoice information and days outstanding and will forward to Finance Manager and Chief Financial Officer for their follow up on any aged invoices.
- 4.3 Accounts Receivable will generate monthly statements of outstanding customers' accounts and issue them to customers no later than 10 days after each month end.
- 4.4 Accounts Receivable will issue Credit Memos to customers upon receipt of approved changes in the terms.

5.0 RECEIVABLE ACCRUALS

- 5.1 Monthly receivable accruals are at the discretion of the Chief Financial Officer and the Finance Manager when those amounts are reasonably known and quantifiable. Fiscal year end receivable accruals are required to be quantified and recorded no later than August 15th.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>11/10/12</u> <u>15/15</u>	<u>Inclusion of back office service provider</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

REV102 Ex1 INVOICE

INVOICE NO. _____

CUSTOMER:

Item	Description	Qty	Rate	Class	Amount
-------------	--------------------	------------	-------------	--------------	---------------

Total

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**REV102 Ex 2 ACCOUNTS RECEIVABLE
WRITE-OFF AUTHORIZATION**

Customer: _____

Date: _____

Invoice No's:

Amount of Write-Off

TOTAL

\$ _____

JUSTIFICATION

Summary of Collection Actions To Date:

(Include brief description of collection actions taken by accounting, other Company departments and outside collection agency or legal, if applicable)

Approvals:

Credit Manager: _____

Date: _____

Controller: _____

Date: _____

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SOP # REV103 Revision: 01
Effective Date: ~~2/14/13~~ 11/19/12 1/7/15

Prepared by: Central Office
Approved by: BOD

Title: REV103 PROJECT(Grant/Contract) REVENUE: PROGRESS BILLING

Policy: Progress billings will be made to clients on a timely basis throughout the life of the project. Projects are typically considered Federal, State, and Local Grant contracts. These billings will be accurate and easily understood by both parties involved.

Purpose: The purpose for creating progress billings is to obtain payment for the portion of labor and materials, i.e. "reimbursed costs" used up to a certain point in time and before the project is fully completed. This improves the cash flow typical of long-term projects or assignments. This procedure applies to all Federal, State, and Local Grants and Contracts, Service agreements or Projects provided by the Organization.

Scope: This procedure applies to all service agreements or projects provided by the Organization.

Responsibilities:

~~Finance Manager~~ The Finance Department is responsible for the confirmation of all final program amounts and is responsible for knowing the correct procedures to be followed for each contract.

Procedure:

1.0 CONTRACT TYPES

1.1 Reimbursement for Services. Progress billing for Reimbursement for Services contracts requires School Site Accountants to be up to date and monitor the services being provided according to the terms of each contract. The School Site Accountant will enter into the reimbursement request the allowable costs that may be billed according to the contract. From time to time and at the end of the contract, the ~~Finance Manager~~ Chief Financial Officer reviews the billings of the contract and ensures that all available opportunities to recover reimbursable costs have been considered.

1.2 Set Contracts. Set contracts such as with the individual charter schools involve reimbursement for costs such as building rental and an allowance for the amount of apportionment attendance earned. Although the contract is set by terms of the contract, since student attendance can vary, the invoicing for these types of contracts is the same amount throughout the fiscal year and reconciled at the end of the year to account for the final attendance counts.

2.0 BREAKDOWN OF CONTRACT AMOUNT

2.1 The Finance ~~Manager~~ Department with the support of EdTec is responsible for the final reconciliation of all grant and other contracts at the end of the year by reviewing final billings prepared by the School Site Accountant and/or the School Principal. Normally, the contractual agreement will specify the procedures for payment and may also specify the form of the breakdown of contract amount that is required. Care should be taken to be sure that all costs, services, and fees are fully billed and accounted for in each contract.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	<u>119/127/15</u>	<u>Inclusion of back-office provider and revision of responsibilities.</u>	<u>Oswaldo Diaz, CFO</u>

SOP # REV105 Revision: 10
Effective Date: 11/12/15/~~14~~/13

Prepared by: Central Office
Approved by: BOD

Title: REV105 REVENUE RECOGNITION - GRANTS AND CONTRIBUTIONS

Policy: The Organization receives revenue from several types of transactions. It is the policy of the Organization to separate and recognize revenue from grants and contributions separately in the financial statements of the Organization and to comply with all current Federal and California rules regarding solicitation and collection of charitable contributions.

Purpose: To provide a separate accounting of grant and contribution income.

Scope: This procedure applies to all grant and contribution income.

Responsibilities:

~~Finance Manager and~~ Chief Financial Officer and the Finance Department direct the separate accounting for grant revenue and contributions received.

~~School Site Accountant~~ EdTec ~~insures~~ ensures that grant and contribution revenues are separately tracked within the accounting system.

Definition:

Contribution - An unconditional transfer of cash or other assets to the Organization, or a settlement or cancellation of the Organization's liabilities, in a voluntary nonreciprocal transfer by another entity acting other than as an owner.

Condition - A donor-imposed stipulation that specifies a future and uncertain event whose occurrence or failure to occur gives the promisor a right of return of the assets it has transferred to the Organization or releases the promisor from its obligation to transfer its assets.

Restriction - A donor-imposed stipulation that specifies a use for the contributed asset that is more specific than broad limits resulting from the nature of the Organization, the environment in which it operates, and the purposes specified in the Organization's articles of incorporation and bylaws. Restrictions on the Organization's use of an asset may be temporary or permanent.

Nonreciprocal Transfer - A transaction in which an entity incurs a liability or transfers assets to the Organization without directly receiving value from the Organization in exchange.

Promise to Give - A written or oral agreement to contribute cash or other assets to the Organization.

Exchange Transaction - A reciprocal transaction in which the Organization and another entity each receive and sacrifice something of approximately equal value

Procedure:

1.0 GRANT AND CONTRIBUTION REVENUE RECOGNITION

1.1 **Grant income** – Recognized as income when received, based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards). The types of grant income typically received by the Organization are:

- (a) Education payments for MERF Charter services.
- (b) Various Federal, State, and Local grants and contracts.
- (c) Other types of grant income may be received from time to time.

At year-end, grant income that has been incurred but not yet received are accrued to conform with generally accepted accounting principles.

1.2 **Contributions** - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income).

1.3 CONTRIBUTIONS RECEIVED

A. Distinguishing Contributions from Exchange Transactions

The Organization may receive income in the form of contributions, revenue from exchange transactions, and income from activities with characteristics of both contributions and exchange transactions. The Organization shall consider the following criteria, and any other relevant factors, in determining whether income will be accounted for as contribution income, exchange transaction revenue, or both:

1. The Organization’s intent in soliciting the asset, as stated in the accompanying materials;
2. The expressed intent of the entity providing resources to the Organization (i.e. does the resource provider state its intent is to support the Organization’s programs or that it anticipates specified benefits in exchange?);

3. Whether the method of delivery of the asset is specified by the resource provider (exchange transaction) or is at the discretion of the Organization (contribution);
4. Whether payment received by the Organization is determined by the resource provider (contribution) or is equal to the value of the assets/services provided by the Organization, or the cost of those assets plus a markup (exchange transaction);
5. Whether there are provisions for penalties (due to nonperformance) beyond the amount of payment (exchange transaction) or whether penalties are limited to the delivery of assets already produced and return of unspent funds (contribution); and
6. Whether assets are to be delivered by the Organization to individuals or other than the resource provider (contribution) or whether they are delivered directly to the resource provider or to individuals or the Organization is closely connected to the resource provider.

B. Accounting for Contributions

The Organization shall recognize contribution income in the period in which the Organization receives restricted or unrestricted assets in nonreciprocal transfers, or unconditional promises of future nonreciprocal asset transfers, from donors. Contribution income shall be classified as increases in unrestricted, temporarily restricted, or permanently restricted net assets based on the existence or absence of such restrictions. See REV107 Restricted Funds for more details.

Unconditional promises to give shall be recorded as assets and increases in temporarily restricted net assets (contribution income) of the Organization in the period that the Organization receives evidence that a promise to support the Organization has been made. Unconditional promises to give that are to be collected within one year shall be recorded at their face value, less any reserve for uncollectible promises, as estimated by management. Unconditional promises to give that are collectible over time periods in excess of one year shall be recorded at their discounted net present value. Accretion of discount on such promises to give shall be recorded as contribution income in each period leading up to the due date of the promise to give. The interest rate that shall be used in calculating net present values of unconditional promises to give is the risk-free rate of return available to the Organization at the time the Organization receives a promise from a donor.

When the final time or use restriction associated with a contributed asset has been met, a reclassification between temporarily restricted and unrestricted net assets shall be recorded.

When it receives support in the form of volunteer labor, the Organization shall record contribution income and assets or expenses if one of the following two criteria is met:

1. The contributed service creates or enhances a nonfinancial asset (such as a building or equipment), or
2. The contributed service possesses all three of the following characteristics:
 - a. It is the type of service that would typically need to be purchased by the Organization if it had not been contributed,
 - b. It requires specialized skills (i.e. formal training in a trade or profession), and
 - c. It is provided by an individual possessing those specialized skills.

Contributed services that meet one of the two preceding criteria shall be recorded at the fair market value of the service rendered.

C. Receipts and Disclosures

The Organization and its donors are subject to certain disclosure and reporting requirements imposed under the Internal Revenue Code and its underlying regulations. To comply with those rules, the Organization shall adhere to the following guidelines with respect to contributions received by the Organization.

For any separate contribution received by the Organization, it shall provide a receipt to the donor. The receipt shall be prepared by the School Principal. All receipts prepared by the Organization shall include the following information:

1. The amount of cash received and/or a description (but not an assessment of the value) of any noncash property received;
2. A statement of whether the Organization provided any goods or services to the donor in consideration, in whole or in part, for any of the cash or property received by the Organization from the donor, and
3. If any goods or services were provided to the donor by the Organization, a description and good faith estimate of the value of those goods or services.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>11/7/2015</u>	<u>Change in responsibilities</u>	<u>Oswaldo Diaz,</u> <u>CFO</u>

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SOP # REV106 Revision: 01
Effective Date: 11/12/152/14/13

Prepared by: Central Office
Approved by: BOD

Title: REV106 GIFTS-IN-KIND

Policy: MERF may accept contributions of goods or services that can be used to advance the mission of MERF and/or any of its schools or may be converted readily into cash. When accepting a gift-in-kind, the receiver must ask the donor to complete as an example REV106 Ex1 GIFT-IN-KIND FORM. Once the donor has completed the form, the receiver must sign the form and send it immediately to the central office for processing.

Purpose: To ensure that Gift-In-Kind transactions are handled in accordance with IRS guidelines and are properly recorded.

Scope: All Gift-In-Kind transactions.

Responsibilities:

Receiver is responsible for assessing the gift for usefulness to the Organization.

School Principal is responsible for handling donor documentation.

~~School Site Accountant~~ The Financial Analysts ~~are~~ is responsible for assessing value of gift and ~~recording into the accounting system~~ informing EdTec so that it can be recorded into the accounting system.

Definition: **Gifts-In-Kind** - Transactions categorized as a voluntary contribution of goods or services that can be used to advance the mission of MERF or can be readily converted to cash and may qualify as a charitable deduction for the person(s) making the gift.

Contributed services cannot be counted as a gift and do not qualify as a charitable tax deduction to the donor. However, a donor of services may be able to deduct expenses incurred while performing said services. In such cases, the donor should be advised to consult with a tax accountant.

Background: The IRS has specific regulations regarding gifts-in-kind. This policy outlines the process an employee of MERF should follow when presented with a gift-in-kind. It limits the liability that may inadvertently be assumed by placing value on gifts or by accepting a gift that does not advance the mission of MERF or cannot be readily converted to cash. It further assures that a donor will receive timely acknowledgement of his/her contribution.

Procedure:

1.0 RECEIPT OF GIFT

1.1 When presented with a potential gift-in-kind, an individual must assess if the gift can be used to advance the mission of MERF or could be readily converted to cash. If there is any question as to whether the contribution meets either of these

criteria, the individual should contact his/her immediate supervisor or the central office.

- 1.2 If the gift is accepted, the individual should offer an immediate and sincere expression of gratitude. At that time, the donor should be given a Gift-In-Kind form and be encouraged to complete the form at that time. If the donor is unable or unwilling to complete the form, the receiver may complete the form, write "N/A" as the estimated fair market value, and enter that the form was completed by him/her in the note section in the lower right hand corner.

The individual accepting the gift cannot offer tax advice or dictate the value of the contribution. It is the responsibility of the donor to determine the fair market value of the contribution. **Note:** the value is for MERF internal gift reporting and accounting only; the donor's receipt and/or acknowledgement will not indicate value in any way that could be construed as an endorsement of its value.

- 1.3 If the item is personal property of the donor and is valued at more than \$5,000, the donor must obtain a certified appraisal. The appraisal cannot be dated more than 60 days from the date of the donation. It must be prepared, signed and dated by a qualified appraiser. Federal law requires that the donor pay for the appraisal. (The cost of the appraisal is also tax deductible). This value will be used for gift reporting purposes only.

What constitutes a qualified appraisal:

- I. Appraiser must hold himself or herself out to the public as an appraiser and state credentials showing that he or she is qualified to appraise the type of property being valued.
- II. Appraiser must value the property no more than 60 days before the date of gift; it can be done after the gift has been accepted by the MERF.
- III. Appraiser cannot be (1) the donor, (2) the donee (MERF), (3) any party to the transaction, (4) an appraiser used regularly by (1), (2) or (3), or anyone employed or related to (1),(2), or (3).

The appraisal must contain the following information:

- 1. A description of the item
 - 2. Its physical condition
 - 3. The date (or expected date) of the contribution
 - 4. Name, address and tax ID number of the appraiser
 - 5. Qualifications of the appraiser including his/her background, experience and education
 - 6. A statement that the appraisal was prepared for income tax purposes
 - 7. Date the item was valued
 - 8. Appraised fair market value of the item
 - 9. Method of valuation (income approach; market data approach; replacement cost minus depreciation approach.)
 - 10. Appraiser must complete Part IV of Section B on form 8283
- 1.4 The individual accepting the gift will sign and date the Gift-In-Kind form only after the donor has irrevocably turned over the gift-in-kind. Once signed, the

form should be turned over to the School Principal immediately for processing and acknowledgement.

- 1.5 The School Principal will notify the School Site Accountant of the contribution. The School Site Accountant will then provide necessary information to EdTec so that it can be ~~and~~ assigned ~~it~~ as an asset or income to the appropriate school or to the central office.

2.0 COMPLIANCE

- 2.1 The IRS allows an individual to deduct the full fair market value of a donated item if it is kept by MERF and used for one of its tax-exempt purposes. If the item is to be converted to cash, then the donor may claim a deduction of the cost value or the fair market value, whichever is less. **It is the sole responsibility of the donor to determine the value of a contributed item; the receiver cannot assign a value to the donated item(s).**
- 2.2 Upon receipt of a gift-in-kind, MERF will issue an acknowledgement to the donor along with a copy of the Gift-In-Kind form. The acknowledgement will contain only a description of the contribution and will not include a statement as to the value of the contribution. It will further contain a statement as to what, if any, goods or services were given in exchange for the contribution. MERF cannot issue an acknowledgement for contributions that cannot be used or readily converted to cash.
- 2.3 For gifts with values exceeding \$5,000, the donor must complete all parts of IRS form 8283 and submit the form to MERF for signature. The School Principal, the Chief Financial Officer and the Chief Executive Officer are the only individuals authorized to sign 8283 forms.

If MERF has signed an IRS form 8283 and then sells, exchanges or otherwise transfers the gift within two years from the date of gift, the central office must file a donee information return, IRS form 8282, within 125 days of disposing the property. MERF will advise the donor if such a transaction occurs as it may affect the charitable tax deduction for which they qualify.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	11/31/15 11/31/15	Inclusion of back-office service provider process	Oswaldo Diaz, <u>CFO</u>

REV106 Ex1 GIFT-IN-KIND CONTRIBUTION FORM

Date: _____

Event Name (if applicable): _____

Donor Information:

Donor Name _____

Contact Person _____

Address _____

City _____ State _____ Zip _____

Daytime phone _____ E-mail Address _____

Gift Description: _____

Estimated fair market value (by donor): \$ _____

Special instructions (e.g., item delivery or pick up, restrictions, etc.):

Please return this form to:

Finance Department Phone: (714)892-5066
13950 Milton Ave. Fax: (714)362-9588
Suite 200B
Westminster, CA 92683

Per IRS regulations, any item you value over \$500 requires IRS Form 8283; any item you value over \$5,000 requires Form 8283 and a written appraisal.

This form does not serve as a receipt for this contribution, but is intended for our internal record keeping purposes only. A receipt describing the items or merchandise donated will be mailed to the address supplied above. Magnolia Educational & Research Foundation is unable to include the estimated value on the donor receipt. It is the responsibility of the donor to substantiate the fair market value for his/her own tax purposes. The donation of services, although very valuable and much appreciated, is generally not considered tax deductible by the IRS. Please consult with your tax advisor to determine the tax implications of your gift.

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SOP # REV107 Revision: 01
Effective Date: 112/124/153

Prepared by: Central Office
Approved by: BOD

Title: REV107 RESTRICTED FUNDS

Policy: To properly record and track funds with restrictions in order to ensure the donor's intended uses are met, assist with cash flow planning purposes, and to stay within compliance with laws relating to use of restricted funds.

Purpose: Generally accepted accounting principles require the Organization to classify funds based on the restrictions provided by the donor. These classifications may be unrestricted, temporarily restricted or permanently restricted. Donor restrictions should be in writing, to ensure proper treatment.

Scope: This procedure applies to funds received that are classified as temporarily or permanently restricted.

Responsibilities:

~~School Site Accountant~~ EdTec is responsible for recording restricted donations and releases from restrictions properly in the accounting system. ~~EdTec~~

~~Finance Manager~~ EdTec is also responsible for periodic reconciliation of restricted asset totals and monitoring restrictions to determine whether they have been met.

Chief Financial Officer is responsible for monitoring of restrictions and determining whether fulfilling restrictions can be viable for the Organization.

Definition:

Unrestricted Net Assets - net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Temporarily Restricted Net Assets - net assets whose use are limited by donors to either a specified purpose or a later date. Pledges receivable are considered to be temporarily restricted because of an inference that uncollected amounts are intended for future periods.

Permanently Restricted Net Assets - net assets whose use are restricted in perpetuity, such as endowments.

Procedure:

1.0 RESTRICTED FUNDS

- 1.1 At the time revenue is earned by the Organization, the ~~School Site Accountant~~ Financial Analysts with the support of EdTec will review any related documentation associated with the revenue to determine whether there are any restrictions on the money. Examples of restrictions are individual donations given with the intent of supporting a particular program or campaign, a grant received to operate a specific program or project, and donations received to hold in perpetuity. This information can be found on the award letter or on the financial instrument itself. If the revenue is determined to contain restrictions, ~~the School Site Accountant~~ EdTec will record in a separate class in the accounting system to keep separate from unrestricted funds. ~~The School Site Accountant should also track the funds in a separate spreadsheet to aid with reconciliation at the fiscal year end.~~
- 1.2 **Temporarily Restricted Funds** – These funds will be monitored for satisfaction of donor restrictions on a regular basis. Once stipulations are met, they are reclassified from temporarily restricted funds to unrestricted funds regardless of when the related expenses will occur. This is known as “net assets released from restrictions.”
- 1.3 **Permanently Restricted Funds** – These funds are restricted by the donor for a designated purpose or time restriction that will never expire. The intent is that the principle balance of the contribution will remain as an investment forever, and the Organization will utilize the interest and investment returns, such as with an endowment.

2.0 ACCOUNTING FOR RESTRICTED FUNDS

- 2.1 In addition to the obligation to its donors, the Organization is bound by law to spend contributed dollars as designated. If a condition on restricted funding has not been fulfilled and the money has been spent, the donor can demand that the funds be returned, pursue legal action, or contact the Office of the Attorney General. It is of the utmost importance that donor restricted funds are handled properly.
- 2.2 Do not budget to spend money unavailable to Organization. When planning and budgeting, be mindful of any and all of the time and activity restrictions present on restricted funds. Understand how restrictions will impact cash flow and availability of funds.
- 2.3 Educate staff and board members who are accountable for the Organization’s financial decisions so that they fully understand funding restrictions. Know when the restrictions are satisfied and how to release the funds from restriction.
- 2.4 When analyzing financial reports, pay close attention to unrestricted funds and, unless you are making decisions regarding programming for which the funds have been restricted, avoid basing decisions on restricted funds. Try to focus your attention on the “Unrestricted” amounts. Formatting financial report with columns that delineate unrestricted and restricted funds can be very helpful.

- 2.5 Most restrictions on funds directly relate to the grant or fundraising request. When researching and applying for grants, be aware of any challenges that potential restrictions could present to the Organization.
- 2.6 Fundraising letters and appeals can inadvertently place restrictions on donations. Be certain that managers and donors understand the purpose of contributed dollars and understand if restrictions are present. Also, be certain that staff charged with fundraising understand that appeals can lead to restricted gifts.
- 2.7 Work with staff to understand the true cost of programming. Allocate all direct costs associated with a program. These allocations help to prepare more accurate budgets for grants and fundraising appeals, and better utilize contributions restricted to specific programs to ease the pressure on limited general operating dollars.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
1	11/7/12 11/15/15	Change in responsibilities responsibilities	Oswaldo Diaz, CFO

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SOP # INV102 Revision: 10
Effective Date: ~~2/14/13~~ 11/12/15

Prepared by: Central Office
Approved by: BOD

Title: INV102 FIXED ASSET CAPITALIZATION & DEPRECIATION

Policy: Asset acquisitions with a useful life expectancy of greater than one year and with a minimum threshold amount as specified by the Chief Financial Officer should be capitalized by the Organization and depreciated.

Purpose: The purpose of this procedure is to delineate the capitalization and depreciation methods for various asset groups.

Scope: All acquisitions of capital assets for the Organization.

Definitions: Capitalization - Capitalization is the method chosen to record the purchase of a fixed asset on the Organization's accounting books. If an asset is capitalized then it is not expensed in the same year the asset is purchased. Instead the asset is generally recorded on the balance sheet and individually on an asset schedule. Examples of capital expenditures are purchases of land, buildings, machinery, office equipment, leasehold improvements and vehicles. The asset is expensed each year as depreciation.

Depreciation - is an annual income tax deduction that allows the write-down or write-off of the cost of the asset over its estimated useful life to recover the cost or other basis of certain property over the time the property is used. It is an allowance expense for the wear and tear, age, deterioration, or obsolescence of the property.

As an asset ages and is used by the Organization, its value declines. It, in effect, becomes worth less and less over time. The declining value or usefulness of the asset over time is represented as a discount that is applied to the original purchase price. At the end of the asset's depreciation period, (and/or useful life), its value on the balance sheet will be zero, or fully-depreciated. At the same time, the individual depreciation expenses will have all been recorded on the income statement.

Note: Land is not depreciated because land does not wear out, become obsolete, or get used up. But, the building on the land is depreciated. Land is generally viewed as an appreciating asset while all other capital assets are generally viewed as depreciating over time, with use. But, unlike depreciation, an asset's appreciation is not recorded on the books until the asset is sold, which is when the assets appreciation is realized.

Cost basis – The total amount paid for the asset, in cash or kind, is considered the “cost-basis”. This should include all charges relating to the purchase, such as the purchase price, freight charges and installation, if applicable. The cost basis is not the market value or list price of the

asset. It is the total amount invested in the purchase or the total amount paid.

Procedure:

1.0 CAPITALIZATION

- 1.1 All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records.

Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item.

In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Depreciation or amortization is computed on the straight-line basis over the useful lives of the assets.

Any asset that does not meet the above criteria will be expensed such as small tools and equipment or repairs and maintenance.

- 1.2 The cost basis of furniture and equipment assets will include all charges relating to the purchase of the asset including the purchase price, freight charges and installation if applicable.
- 1.3 Leasehold improvements including painting are to be capitalized if they relate to the occupancy of a new office or a major renovation of an existing office or site. Expenditures incurred in connection with maintaining an existing facility in good working order should be expensed as a repair.
- 1.4 The cost of buildings should include all expenditures related directly to its acquisition or construction. This cost includes materials, labor and overhead incurred during construction, and fees, such as attorney's and architect's and building permits.
- 1.5 Maintain proper files on the details to all acquisitions, expenditures, and maintenance performed on all assets. These records are vital for proper tax preparation and are used during yearly tax reporting and planning.

2.0 DEPRECIATION

- 2.1 The depreciation methods/lives for assets must be selected at the time the asset is first placed into service in order to ensure consistent financial reporting and tax compliance.

The Organization uses the straight-line method of depreciation.

The following represents a sample of the useful lives that the Organization may use for financial reporting purposes:

Asset Class	Examples	Estimated Useful Life in Years
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor	20
Buildings		20 - 50
HVAC systems	Heating, ventilation, and air systems	10 - 20
Roofing		20
Interior construction	Leasehold improvements	20 - 25
Carpet replacement		7
Electrical/plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, tanks	20
Machinery & tools	Shop & maintenance equipment,	3 - 15
Custodial equipment	Floor scrubbers, vacuums, other	7 - 15
Furniture & accessories	Classroom & other furniture	10 - 20
Business machines	Fax, duplicating & printing	3 - 10
Copiers		3 - 10
Communication equipment	Mobile, portable radios	3 - 7
Computer hardware	PCs, printers, network hardware	3 - 5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	5 - 10
Athletic equipment	Wrestling mats, weight machines	7 - 10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	5 - 10

- 2.2 The lowest life permitted by tax regulations for asset classes should be selected to optimize depreciation deductions.
- 2.3 Regardless of the depreciation rate required an Organization can elect to use a different method for financial statement purposes. Such method should be justified based on the expected useful life of the asset.
- 2.4 Depreciation will be recorded in the accounting system at the end of the fiscal year.

Revision History:

Revision	Date	Description of changes	Requested By
0	2/14/13	Initial Release	
<u>1</u>	<u>11/12/15</u>	<u>Revision of capitalization policy relating to technology aggregate purchases</u>	<u>Oswaldo Diaz, CFO</u>

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