

FINANCIAL OPERATIONS MANUAL

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Policy overview: Creates manual with fiscal procedures.

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Kawaikini's Financial Operations Manual is below.

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Kawaikini NCPCS

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Financial Operations Manual

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Introduction

Kawaikini NCPCS was authorized in November 2007 as a non-profit Hawaii Public Charter School and began operations in July 2008. Kawaikini is a New Century Public Charter School, which implements an alternative framework with regards to curriculum, facilities management, instructional approach, length of school periods and personnel management. This system provides for flexibility in the preparation and execution of budgeted funds and encourages school-initiated methods for educational decision-making.

Whatever its mission or size, all organizations should have policies and procedures established so that (1) boards and officers understand their fiduciary responsibilities, (2) assets are managed properly and (3) the stated mission of the organization is carried out. The development and maintenance of effective internal controls will help to protect an organization's assets, assist in their proper management and assure accountability.

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and aid in achieving effective, efficient operations. These systems are not only related to accounting and reporting but also related to the organization's communication processes, internally and externally. The purpose of this manual is to address mainly, the accounting and reporting procedures.

Every organization should have procedures to monitor and record assets received, held and expended. Some of the basic procedures addressed in this manual are the following:

- 1) Preparing an annual income and expense budget and periodic reports that compare actual receipts and expenditures to the budget with timely variance explanation. Appropriate and timely financial reports are to be distributed to directors and officers and reviewed by them.
- 2) Writing and signing checks or vouchers and receiving, recording, securing and depositing cash and other receipts. Such procedures should ensure that no single individual is responsible for receiving, recording and depositing funds or request, authorize, verify and record expenditures. In other words, segregation of duties means that no financial transaction is handled by only one person from beginning to end. This includes the accessing, inputting and changing of electronic data maintained by the organization. For example, the same person should not be permitted to write checks and perform bank reconciliations. Checks and balances are essential for accountability.

- 3) Ensuring that grants and contributions received are properly recorded noting any conditions or restrictions on the use of such funds and the organization is compliant to these restrictions and reporting procedures of the donor or grantor.
- 4) Ensure that the organization is compliant to all government reporting regulations concerning all tax filings. Altres is responsible for other tax filings including payroll taxes, gross excise tax and any unrelated business tax. Altres reports are reviewed quarterly.

Chapter

1

Accounting Policies

The School's financial statements follow generally accepted accounting principles as described by the American Institute of Certified Public Accountants. Accordingly, the financial statements are prepared on the accrual basis of accounting. Under this method of accounting, revenue is recorded when earned rather than when received and expenses are recorded when incurred rather than when paid. For the local school boards and the vast majority of the uses of Kawaikini's financial statements, General Accepted Accounting Principals (GAAP) financial statements will be the most usable and relevant.

Kawaikini is exempt from Federal income taxes because it is a part of the State of Hawaii public school system. Therefore, no provision for Federal or State income taxes is required.

The annual budget is prepared by the Executive Director (ED) and the Administrative Manager (AM). Upon completion, the budget is to be reviewed by the Governing Board (GB) Finance Committee, who will then recommend approval by the GB. It is then used as a tool for periodic variance reports through Quickbooks. This budget is also submitted to the Charter School Commission annually.

Kawaikini's accounting and financial reporting information is maintained on the QuickBooks online software. This manual will discuss the procedures for using QuickBooks for maintaining the books of the school.

Payroll

Input new employees, track Earned Time Off balances, process timesheets, process payroll checks.

Payroll is processed semi-monthly. Checks for the first half of the month, 1-15, are paid on the 20th. Checks for the second half of the month, 16-31, are paid on the 5th of the following month.

Internal Controls

1. New employees are added to the payroll through a Payroll Authorization Form, which is signed by the AM or ED of the school. In addition, the new employee will also need to complete the W-4, HW-4 and I-9 forms. If eligible, medical coverage enrollment or medical waiver forms will also be completed.
2. All of these forms noted above are to be forwarded to the AM and once processed, kept on file for at least 5 years.
3. For an existing employee who has a change to their current payroll information, such as an increase in pay or withholdings, a Change of Status Form signed by an officer along with the necessary W-4, HW-4, or other benefit forms must be submitted to the AM prior to the end of the current pay period.
4. Specific school personnel will complete timesheets that are signed by the employee. These employees include anyone under the Special Education Department and Ho‘opākela After-School Program.
5. Timesheets are reviewed daily by the AM, who receives them electronically.
6. Checks are prepared and signed out of the Altres ALTRESpayroll system.
7. Semi-annually, the ED and AM should verify annual pay rates per the employees’ file to the actual salary paid for each employee. Upon completion, the annual pay rate is to be reviewed by the GB Finance Committee. This verification should be noted in the GB minutes via the ED’s report.

Processing Payroll

Altres ALTRES Payroll Processing - On the day of payroll is due, the AM performs the following payroll processing procedures for employees:

- Update employee information, tax and other base payroll information from authorized Payroll Authorization Forms, Change of Status Forms, W-4, HW-4, and other benefit forms authorized by the employee and/or ED of the school.
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- Enter payroll information into the ALTRES Payroll system
- After payroll has been inputted, the AM will accept the payroll for processing
- Two (2) days after processing payroll in ALTRES, paper paychecks or pay stubs are mailed to the school.
- From the ALTRES reports, the AM compiles a journal entry. This entry posts the withdrawal of funds from the bank as a credit and the appropriate allocation of total wages, withholdings and payroll taxes as a debit.

Independent Contractors

Contractors are not paid out of the payroll module. The AM obtains a completed W-9 form from each contractor to be kept on file. Check their invoices with the agreement contracts on file. Be sure to use the correct expense accounts and classes. Create and print these checks. Contractors earning over \$600 should receive a miscellaneous income form, Form 1099-MISC, from the school by January 31st each year. QuickBooks can track the needed information through the vendor setup. Altres can also prepare the 1099-MISC forms.

Tracking Leave Balance (LB)

Full-time and half-time employees earn time off with pay, which may be used by the employee for reasons listed in the union contract.. Employees shall accrue time off from the date of their employment. LB is governed by the Union contracts. The current union contracts with HGEA, HSTA and UPW state that all LB is earned after the first work day of the school year. The fiscal year end is the anniversary date of LB balances. An employee may carry up to 90 days of vacation and 90 days of sick time to the next year.

The employees' LB is tracked manually and a balance report is given at the end of each quarter.

Internal Controls

1. The employee requests leave by filling out a leave request form in HR Symphony, submitting it to their supervisor.
2. Supervisors review the request, accept their approval and a copy is electronically sent to the employee and the AM to be filed with the payroll.
3. The AM enters the LB when processing payroll.
4. The employee reports any LB discrepancies to the School. The AM provides support to the ED to resolve the issue . Once resolved, the AM makes changes to the employee's payroll records.

Payroll Liabilities

ALTRES: At each pay period, ALTRES computes and submits all Federal and State taxes. Payroll taxes that are due each pay period are paid by ALTRES

through a withdrawal from the School's bank account. This withdrawal amount is part of the ALTRES transmittal is given to the AM after each payroll submission.

Quarterly, ALTRES submits the Federal Form 941 reconciliation and the state unemployment UCB-6. Annually, ALTRES is responsible for the preparation and submission of the W-2s and W-3 forms.

The Charter School Admin Office reimburses Kawaikini for the payroll taxes on a quarterly basis.

Chapter

2

Accounts Payable / Disbursements

Input bills and credit memos, print reports & checks to pay bills, enter manual checks

The AM processes accounts payable disbursements/checks as needed or at least once a week.

Internal Controls

1. The accounts payable process begins with an employee submitting a requisition to their supervisor for approval or for bills received in the mail.
2. The supervisor will review the requisition or bill and give it to the AM. The AM will code it to the correct account and class in Quickbooks..
3. The invoices are entered in QuickBooks and a check is printed. The AM will match the invoice to the requisition when appropriate.
4. The ED reviews the checks, matches them to the supporting documents and signs the checks. Checks greater than or equal to \$500 require two signatures and checks greater than or equal to \$5,000 require the ED and GB President or Treasurer to sign. Board signature is not required for any amount with previous GB approval that exceeds \$5,000.
5. The AM mails the checks out and files “paid” invoices. Filing is by vendor.
6. All “void” checks are defaced and entered into the check register. The physical check is kept in a “void check” folder.

7. Check stock is kept in a locked drawer with access to the AM.

Chapter

3

Cash / Accounts Receivable

Handling and reconciling cash, invoicing & billing

Cash

This process ensures that the safety and integrity of the asset (i.e. cash) is protected against misappropriation.

Internal Controls

1. If payment is collected, a *Receipt* for any form of payment (e.g. cash, credit card, check, etc.) is given to the payer via Square.
2. Payments received in the mail are opened by the AM and entered into a cash receipts log along with any receipts collected directly, as noted above.
3. Duplicate receipts and checks are given to the AM and copies are made of the checks.
4. The deposit slip is prepared in duplicate by the AM.
5. The AM takes the deposits to the bank.
6. The AM posts regular deposits and Square deposits to Quickbooks at the end of each month.
7. The ED prints the bank statement monthly and the School Operations Coordinator (SOC) to reconcile in Quickbooks.

Reconciliation

This process verifies what checks have cleared and what deposits have been credited to the bank account. With the proper internal controls in place, this function is one test for identifying misappropriation by noting deposits that have not been made timely or what checks have cleared the bank and not been recorded in the general ledger.

1. The ED prints the statement online.
2. The SOC will begin reconciling the account by going into QuickBooks and selecting *Reconcile*.
3. The SOC will compare each deposit and voided checks against the check register. At each instance of a match, the SOC will “click” the item in QuickBooks and the software will signify what (if any) differences remain.
4. When the SOC is finished, a *detailed* report of the reconciliation is printed out and signed off on. Outstanding deposits, stale-dated checks, unposted charges, etc. should be noted and cleared if determined to be stale.
5. Items to be considered “stale” are ones over 180 days old. These items will be removed twice per year in January and in June.

The GB Treasurer and the ED will review the bank statement, bank reconciliation and the financial statements at the monthly Finance Committee meeting prior to Board meetings. The Finance Committee approved financial statements are then recommended to the GB for acceptance at the monthly GB meeting.

Allocation Receivable

The Per Pupil Allocation is based on the number of students and posted to the general ledger using the following procedures:

1. In July, the Charter School Commission performs an ACH transfer of 60% of the per pupil amount.
2. In November an ACH transfer of 30%.
3. In February an ACH transfer of the remaining 10%.

Chapter

4

Financial Reports

End of the Month Closing

At the end of each month, the AM prints the Profit and Loss Statement and Balance Sheet for review. It is reviewed by the AM for any errors, then matched against the current year's budget and reviewed by the ED and GB Treasurer at the Finance Committee meeting. Any/all variances from the budget are discussed.

Chapter

5

Miscellaneous Procedures

Fixed Assets

The Board decides upon procurement policies for fixed assets. For any purchases over \$5,000, the item is requisitioned by the requesting staff or board member. This is done by the procedures detailed in the Procurement Policy. The ED must then approve the purchase. Any items purchased over \$15,000 requires GB approval per the Procurement Policy.

The School should keep a detailed listing of fixed assets which shows each asset individually. This is a good internal control because it allows for accountability for asset tracking and retention. It helps assure that assets purchased are accounted for each year and don't get removed without noting in the accounting records. Assets disposed are also tracked on the detailed fixed assets listing so that all assets are properly safeguarded.

In the course of regular bookkeeping, when large items of school equipment or furniture are purchased, make a copy of the invoice and file it in the appropriate Fixed Assets folder. At fiscal year end, compile the purchases into a list. Have the ED review and identify what items to capitalize. Create a general journal entry to credit the expense account and debit the appropriate Fixed Asset account for the capitalized items.

Depreciation is computed annually using the straight line method. Items with a cost of \$5000 or more are capitalized. The new capitalized items should be added to the Depreciation schedule. Further update the schedule as needed and create a general journal entry to credit the Accumulated Depreciation account and debit the Depreciation expense account.

RESTRICTED FUNDS AND CLASSES

The School will receive grant funds and restricted donations from time to time. These funds are to be accounted for separately for three reasons:

1. The restricted funds received are identified as such.
2. The use of the funds (expenditures) is applied directly to the restricted funds.
3. The remaining balance of restricted funds can be known at any time.

In order to properly track the receipt, use and balance of restricted funds, the Classes feature in QuickBooks is used. Every accounting transaction in

QuickBooks has the ability to be coded by class. As a result, the School can print out any report in QuickBooks by class such as profit and loss by class, transactions by class and cash disbursements by class. These reports are extremely valuable when reporting restricted fund activity to various grantors, government agencies and segregating the School activity from grant activity.

Restricted receipts are recorded in Quickbooks by using classes on transactions that are entered into the accounting system. For bills, deposits, general ledger entries and all transactions, the class field is to be filled in. Ideally, the class is determined by the Principal when coding and approving invoices. However, the routine operating expenses can be classed by the accountant.

There are also situations where certain entries will need to be split and allocated to different classes. For instance, the rent can be coded to the one expense account (rent expense) but separated to different classes based on approved budgets.

The procedures for running class profit and loss reports are as follows:

1. Open the reports menu in Quickbooks.
2. Choose Profit and Loss by Class.
3. At the “modify reports” screen, enter the appropriate beginning and ending dates and select the filter for the desired class..
4. Select “class” and choose the name of the restricted fund that you are researching. Press “ok” and the profit and loss statement specific to that fund will be displayed.
5. To display a detail of the transactions that make up this report total, place the cursor on the net income line and double click with the mouse. This enables you to “drill down” and produce a detailed report.

For other reports by class, you can use the filter option under modify report. Simply click on modify report and then click on the filter tab. Then select the class filter and choose the class or classes you want to see. The remaining classes will be filtered out of the report.

A separate file folder should be maintained for each restricted fund. This folder will contain correspondence and information concerning the donor and the restrictions on the funds. All reporting dates and requirements are to be noted and put into the accounting schedule. Fiscal reports will be filed in the folder when produced.

DEFERRED REVENUE

Deferred revenue represents cash received but is not yet earned. For example, the School receives a grant check for \$120,000 to be used for a particular purpose during the year. All of this is deferred revenue until it is earned. It is important for the users of the financial statements to see this amount as a liability on the balance sheet until earned. Then, only the portion earned should be recorded on the profit and loss statement under that grant's class.

When deferred revenue is received:

1. Set up a grant folder (if not done yet) with the grant agreement and check copies and all correspondence related to the grant.
2. Set-up a specific class in QuickBooks for this particular grant.
3. Deposit the check into the bank and code the receipts to deferred revenue, a liability account.
4. Note in the grant file how this grant is to be earned. i.e. as funds are spent, passage of time, as services are rendered, etc.
5. At each month end, record revenue earned on this grant by making a general journal entry to debit deferred revenue and credit grant revenue for amounts earned that month.

HAWAIIAN TRAVEL ACCOUNT

Staff, family and friends of Kawaikini are allowed use of the school's travel account. Payment for any/all travel is due upon booking of the flights. The AM is responsible for booking all flights using the Corporate account.

EQUIPMENT INVENTORY

All equipment purchased for the school receives an inventory tag when the item arrives. The AM puts an inventory tag on each item, logs the tag number,

serial number, model, etc into a log which is sorted by person/grade. At the end of each school year an inventory is performed by the AM to ensure that all equipment is accounted for.

SCHOOL DEBIT CARD

Kawaikini has one (1) Mastercard Debit card.. The AM posts debit card charges with receipts to the monthly list for approval. The AM then posts debit card charges to Quickbooks. Debit card charges are reviewed and signed off by the ED and GB Treasurer during the monthly Finance Committee meeting.